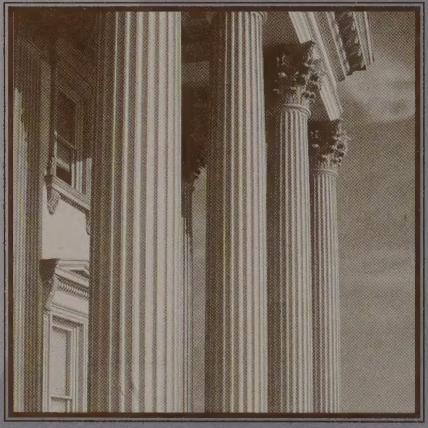
INVESTING FOR A WIDOW

The

JAMES L. FRASER CFA INSTITUTE

Collection

in cooperation with **The Museum of American Finance**



A gift of James L. Fraser, CFA
with the support of CFA Institute

CFA INSTITUTE

Setting the global standard for investment professionals

www.cfainstitute.org

INVESTING FOR A WIDOW

HG
4527
B3
c2

INVESTING FOR A WIDOW

FOURTEEN PLANS FOR THE INVESTMENT OF $100,000 WHICH IS ASSUMED TO CONSTITUTE THE ENTIRE FORTUNE OF A WIDOW WITH TWO YOUNG CHILDREN

Selected from the Articles submitted in a Prize Contest conducted by BARRON'S *in the Summer of 1925*

TOGETHER WITH
FOUR CRITICISMS OF THE PRIZE-WINNING ARTICLES
AND A LIST OF FAVORITE AMERICAN INVESTMENTS
AS REVEALED BY AN ANALYSIS OF
THE ARTICLES SUBMITTED IN THAT CONTEST

BARRON'S
The National Financial Weekly
BOSTON NEW YORK PHILADELPHIA
1926

COPYRIGHT 1926
BY
HUGH BANCROFT
PUBLISHER OF BARRON'S

FOREWORD

In the summer of 1925, *Barron's* offered a total of Two Thousand Dollars in prizes for the best plans for investing $100,000 which was to be treated as the whole fortune of a widow with two young children.

There were 1110 manuscripts received which were thought worthy of serious consideration.

The eight prize winning articles were selected by a final jury consisting of three bankers: Mr. James H. Perkins, President, Farmers Loan and Trust Company, New York; Mr. George S. Mumford, President, Atlantic National Bank, Boston; and Mr. Henry G. Brengle, President, Philadelphia Trust Company, Philadelphia.

The eight prize winning articles and six more which were highly regarded and further illuminate the subject are included in this volume.

After the publication of the first three prize articles, *Barron's* offered a prize of One Hundred Dollars for the most instructive criticism of the three articles. The prize winning criticism and three others are included.

The final chapter sets forth the securities that were most generally regarded as best suited for an investment fund of this character as revealed by an analysis of all of the 1110 articles.

The contest was open from June 1 to August 15, 1925, a period when the average price of industrial stocks was at the highest level that had ever up to that time

been reached, the average price of railroad stocks was at the highest price for several years, and the bond market was strong at close to recent high levels.

The generally high price level was an important factor with the contestants in making up their lists of specific securities, and should be borne in mind by readers who seek to apply the principles herein set forth to their own particular problems.

HUGH BANCROFT.

CONTENTS

		PAGE
FOREWORD		V
INVESTING FOR A WIDOW		
I	*Walker Van Riper*	1
II	*Charles E. Brundage*	10
III	*William Arthur Brown*	23
IV	*Henry L. Walker*	30
V	*Reed Bricker*	42
VI	*David L. Saunders*	54
VII	*William R. Biggs*	62
VIII	*Russell Leavitt*	74
IX	*A. Vere Shaw*	83
X	*Ira D. Hyskell, Ph.D.*	94
XI	*G. C. Mayer*	102
XII	*Chas. E. Chapman*	110
XIII	*Chas. F. Bartholomew*	119
XIV	*Edward S. Howe*	129
A CRITICISM		
XV	*John R. Thomas*	141
XVI	*Walter B. Binnian*	146
XVII	*Thomas Edmund Hammond*	150
XVIII	*Elbridge S. Warner*	154
XIX	AMERICA'S FAVORITE INVESTMENTS	160

I

INVESTING FOR A WIDOW

By WALKER VAN RIPER

Awarded the first prize of $1,000 in Barron's contest

INVESTMENT of $100,000 for a widow with two children presents a problem which is not capable of many different solutions; or rather it is a problem which involves a perfectly definite method of solution and the correct answers may differ only in the selected items of investment. The requirements are, first, a dependable income sufficient to support the family; second, the preservation of the capital of the estate for the children; third, provision against the necessity for an increase in the income at about the time when the children are ready to go to college.

If the investment were for a widow without children, the emphasis probably should be on income—under certain circumstances an annuity would be the ideal investment—; and if the investment were for a business man or woman with other sources of income, the possibility of future increases in value should be stressed. But with our problem, a widow with children, the most difficult part of the problem has to do with the preservation of the estate for the children. Let us assume that she has no other source of income; that the children are a boy, aged six, and a girl of four; and that in making the investment we are bound by no legal restrictions such as must be complied with by a trustee or executor. In other words, the thing is to be

done to the best possible advantage under the conditions as they now exist.

Keeping within Income

How to meet the first requirement, a dependable income, is obvious, that is, by selecting seasoned, income-paying securities. As to the amount of the income, that is determined by the present level of security prices and yields and is a matter over which we have no control. We must avoid the common mistake of setting our minds on a desirable figure for income and selecting securities which will yield that result; rather we must accept the result which follows from investing in securities of the highest type and our client must adjust her living expenses inside the income which is thus obtained.

Let us take the third requirement next. It is that income shall increase somewhat about the time the children reach college age. This increased income is to be obtained with certainty in only two ways, by savings from current income, or by postponing a part of the income. The latter may be done by selecting bonds bearing low coupon rates and selling at a discount. The current annual income from such bonds will be at 3%, 3½%, or 4% and that part of the income which is represented by the discount will become available when the bonds mature. By arranging for serial maturities during the period when the additional income is necessary the requirement is satisfactorily met. This method has two advantages. In the first place, the saving is enforced and the amount of it is settled in advance. In the second place, long-term bonds selling at a discount will yield the greatest

advantage in case of a marked fall in interest rates, that is, the advantage will be greater than with bonds of the same character now selling around par, for the discount bonds are further away from the possibility of redemption and it is easier for bonds to sell up to par than to advance to increasing premiums.

Importance of Safeguarding Capital

Now as to the other requirement—the preservation of the capital of the estate for the children—this is a matter which all will agree is of the utmost importance. The obvious necessity is for investment in high-grade securities, something which has been mentioned in connection with the provision of a dependable income. There is another angle, however, which is generally in cases of this sort overlooked, but which is of the very greatest weight and positively cannot be neglected if the thing is to be handled intelligently. This is the risk which is due to fluctuations in the purchasing power of money. How great this risk is may be seen from a single example: An investor who purchased an investment bond of the highest type twenty-five years ago, such as Atchison general 4s, would have, in purchasing power now, an income approximately half that in effect at the time the investment was made. During the period the annual income of $40 per bond would have been as dependable as possible, but, on account of the fact that 1925 prices are double those of 1900, each $40 buys only half what it did when the investment was made. In other words, for all practical purposes this investment, though in a bond of the highest type, was just 50% safe.

THE LIST OF INVESTMENTS

Bonds

	Due	*Par value*	*Price*	*Amount*
Dominion of Canada 10-yr. 5½s	1929	$5,000	102⅝	$5,143.75
Union Oil of Cal. 1st lien s. f. 5s	1931	5,000	100⅜	5,018.75
Niagara Falls Power 1st 5s	1932	5,000	102⅛	5,106.25
Laclede Gas Lt. St. L. ref. & ext. 5s	1934	5,000	101	5,050.00
Pennsylvania Co. guar. coll. 3½s	1937	5,000	86½	4,325.00
Rio Grande Western 1st 4s	1939	5,000	86⅛	4,306.25
St. P. M. & M. Pac. Ext. guar. 4s (Gt. Nor.)	1940	5,000	88⅞	4,443.75
General Electric deb. 3½s	1942	5,000	84⅜	4,218.75
Wash. Term. 1st 3½s (B. & O.–P. B. & W.)	1945	5,000	79½	3,975.00
N. Y. & Erie 1st ext. 4s	1947	5,000	89¼	4,462.50
Southern Pacific coll. 4s	1949	5,000	87½	4,375.00
Kansas City So. 1st 3s	1950	5,000	73⅜	3,668.75
Mich. Cent. J. L. & S. 1st gold 3½s	1951	5,000	78	3,900.00
Total bonds		$65,000		$57,993.75

Stocks

	Div. rate	*No. shares*		
American Car & Foundry	$6	35	103	$3,605.00
American Tel. & Tel.	9	25	140½	3,512.50
Atchison, Topeka & Santa Fe	7	30	119	3,570.00
Atlantic Coast Line	8	20	162⅛	3,242.50
Commonwealth Edison (Chicago)	8	25	139	3,475.00
Consolidated Gas of New York	5	40	87¼	3,490.00
New York Central	7	30	116	3,480.00
Pullman Co.	8	25	140½	3,512.50
United Fruit	10	20	218	4,360.00
Western Union	7	25	136	3,400.00
Westinghouse Electric & Mfg	4	50	71½	3,575.00
Total stocks				$39,222.50

Editor's Note—The prices given are those of July 3, 1925, the date the article was submitted.

Why Stocks as Well as Bonds Are Used

Whether prices will continue to advance, whether they are stabilized, or whether they will gradually fall is a question on which economists and students of this subject are very evenly divided. It is certainly a very speculative matter and we should attempt to

meet the situation, not by guessing as to what is likely to occur, but by trying to insure against a movement of prices in either direction.

This is to be done in only one way and that is by including stocks in the investment fund. This is a good practical solution though of course it is only approximately certain. If stocks are balanced against long-term bonds, the investor, as bondholder, will gain if prices fall, and, as stockholder, will gain if prices rise. That stocks in general gain with a rise in prices is obvious; hence we shall not stop to explain it. The result of taking the course suggested is that the effect of a movement in prices either way is equalized for the fund as a whole, and thus the capital may be preserved.

There are several other minor reasons for including stocks in the fund. In the first place, there are a number of stocks which are thoroughly sound and safe investments. In the second place, the stocks of conservatively managed companies tend constantly to increase in value through the reinvestment of undistributed earnings in the business. In the third place, the dividends from stocks are exempt from the normal federal income tax, and, taking into account the exemptions of a widow with two children, we can make the income from the investment tax-free as far as federal income taxes are concerned by dividing the investment between bonds and stocks.

A Diversified List

With respect to the choice of stocks we must limit ourselves absolutely to the best. We may consider only thoroughly seasoned stocks of prosperous com-

panies with long dividend records. Current income is a necessity and we must have an eye to future prospects.

Diversification is essential and to enhance this we may make our investment in the individual stocks smaller than with bonds. We shall balance the investment in stocks against the long-term bonds and aim to have about 20% in short-term bonds, 40% in long-term bonds, and 40% in stocks.

The Bond Investments

As to bonds, security is, of course, the first consideration and in view of the fact that part of the investment is to be in stocks we may well be a little more conservative than would otherwise be the case. The next consideration is for appropriate maturities, the idea being to distribute these fairly evenly over a long period. This is a necessity in any investment plan as periodical maturities furnish an opportunity for new investments according to prevailing conditions and these are, in fact, revisions of the original scheme which keep it abreast of developments. For our particular purposes serial maturities of the discount bonds fit in with the aims explained in a previous paragraph, serving to spread postponed income over a period when it is especially needed.

A glance at the table which gives details regarding the investments selected to meet all the conditions mentioned shows that we have approximately $60,000 in bonds and $40,000 in stocks. Of the bonds, $20,000 mature within ten years. In selecting the four issues which make up this amount the acquisition of present

rather than future income was aimed at. $40,000 of the bonds are long-term issues, maturing from 1937 to 1951. The figure for the amount of these bonds is approximate cost ($38,000 would be nearer); the par value of the long-term issues being $45,000. The selections were made to give a distribution of maturities and for the fact that these issues, bearing low coupon rates, were obtainable at discounts. The total discount is something over $7000 or nearly $500 per year for the period of fifteen years from 1937 to 1951; this $500 representing additional income. In 1937 our client's older child, the son, will be eighteen years old, or about college age. It is possible that our provision for increased income might conveniently begin a little earlier and that the period during which it is provided might be made shorter and the income during the period greater. This is something which may easily be arranged when the time comes as the postponed income may be anticipated at any time by realizing on the discount bonds before they actually mature.

There is no necessity for describing the individual issues. Equally satisfactory substitutes might be found for almost any item in the list. This is to be expected; as the market tends to equalize prices on the basis of intrinsic values and in any one class, particularly for securities of the highest grade, there is not much difference either in security or yield—the main differences being in the secondary considerations such as maturities and discounts. Most of the bonds in our list are underlying rails. These in general are the safest of corporation bonds and nowhere else would it have been possible for us to fulfill all our requirements. There are no municipal or United

States government issues in the list because we have no necessity for tax exemption.

Selecting Stocks

As for selections of stocks, the aim has been to get as much diversification as possible while keeping the standards very strict. The field of choice is not so great here as it is with bonds. Any list of the dozen best investment common stocks would include most of our selections, provided not over three items were railroad stocks. We have kept the rail stocks down to this number because of the preponderance of rails in our bond list.

The Summary

To summarize: We have invested $58,000 (about 60%) in bonds, being $5000 par value of thirteen issues —one government, two public utilities, two industrial, and eight railroads. Maturities are distributed fairly evenly from 1929 to 1951, four short-term issues and nine long. These afford a present annual income of $2675, or 4.6% on the investment, and after 1937 this is increased by approximately $500 per annum through the maturity of bonds purchased at a discount. The average yield to maturity of these bonds is 4.9%. The stocks comprise eleven issues, three rails, four public utilities, and four industrials. The stock investment of $39,000 (about 40% of the total) is divided about evenly among the eleven selections. The annual income from this investment is $2190, or a yield of 5.48%. The total investment in both bonds and stocks is thus in round figures $97,000 which

affords an annual income to start with of $4865 and this is increased by about $500 per year after twelve years. Prices of both bonds and stocks were taken as of July 3, 1925. An eighth-point was added to the bond prices to cover commissions and the stocks were taken at enough over the average prices for the day to allow for commissions. Accrued interest was not figured for the bonds, but $3000 was left uninvested which might be used for this and for a bank account.

II

INVESTING FOR A WIDOW

By CHARLES E. BRUNDAGE

Awarded the second prize of $500 in Barron's contest

A SOUND approach to any investment problem requires more than the application of any fixed formula or particular set of rules. The functions performed by various types of securities and the requirements of investors vary too greatly to permit any arbitrary method of procedure. Furthermore, investment theory is still in a state of flux and even the most impartial experts often disagree on the relative values of investment policies or on the merits of different types of securities. While certain methods of practice have been generally accepted as sound, there are not many rules that can be applied inflexibly at all times and under all conditions.

As investing involves both an act and a concept, it is essential to define our conception of what constitutes sound investment. We believe this to be the application or utilization of capital in such a way as at least to maintain and, if possible, to increase the purchasing power of both principal and income to provide for an increasing standard of living, and to seek these objectives with capital and income values safeguarded against any and all possible eventualities. Although this general statement is subject to modification in certain instances, such as in the case of certain institutional investors, it applies generally to most individual investors.

Real Income vs. Dollar Income

The individual investing his capital sacrifices the use of his accumulated dollars in order to receive with certainty future values upon which he will be dependent for his support, comfort and enjoyment. Fundamentally, the investor is not interested in dollar values but in what the dollar buys. As the dollar is subject to radical change in its power to command commodity values, he must at all times be protected against a vacillating dollar.

Income requirements, of course, vary among investors. Some are in such a condition of life that a high current purchasing-power-income is necessary. Others are in a position to sacrifice high current income in exchange for a larger future income, thus providing for an increasing standard of living. In any event, the purchasing power of the dollar yielded by invested capital is of basic importance, and real income must always be differentiated from dollar income.

Scientific Investing

To accomplish the objectives of the investor is no simple task. There are so many variable elements affecting invested capital that it becomes difficult to take an action in the present that will protect capital and income values against any set of conditions that may prevail in the future. It is humanly impossible to prognosticate the economic trends of the future, and thus far no system has been devised which will forecast consistently or with accuracy what future conditions will be or when they will change. Because

the field of investment is a field of variables, the future trend of which is indeterminate, it becomes impossible to reduce investing to the status of an exact science.

A scientific approach, however, is possible in meeting a practical situation such as has been presented by Barron's in the case of a widow with two dependent children and with $100,000 capital available for investment. Such an approach is suggested in the following procedure:

(1) By observation and analysis of all important variable factors affecting invested capital.

(2) By a study of the investment requirements of the beneficiary.

(3) By observing and appraising prevailing economic conditions.

(4) By a survey of the available types of investment and their behavior under varying conditions.

(5) By the formulation of a definite investment plan or policy aimed to satisfy the beneficiary's requirements and suited to prevailing economic conditions.

(6) By a careful selection of sound securities suited to the requirements of the investment plan.

Factors Affecting Invested Capital

The various changing factors affecting invested capital directly or indirectly are too numerous and involved to permit thorough discussion, but the most important elements are summarized below:

(1) The advancing, although interrupted, economic growth of the country, marked by periods of activity, prosperity or inflation, followed by periods of depression and deflation.

(2) Changing rates of interest, varying roughly over periods of time between 3% and 7%.

(3) General commodity price changes or, in other words, fluctuation in the purchasing power of the dollar.

(4) Special conditions affecting particular industries, localities or enterprises.

(5) Changing social or political factors, taxation, etc., national and international.

These changing forces are all interrelated, some bearing a direct relationship to others, and some an inverse relationship. In formulating the investment plan or policy, due consideration must be given to any possible combination of favorable or unfavorable factors.

The Requirements of Our Widow Investor

A widow who is obliged to support herself and two young children faces two distinct problems. She must obtain from her invested capital a current income sufficient to provide the necessities and ordinary comforts of life for herself and children, who must be fed, clothed, sheltered and educated until the time when they become self-supporting adults. She must also recognize that as her children become older she will be obliged to provide for their growing wants and their increased standard of living. As the economic needs of the family will tend to increase, a greater future purchasing-power income will be essential.

The above requirements constitute the investment purposes or objectives of our widow investor. There is available $100,000 capital and it is assumed that

there are no other sources of income. As she is dependent entirely upon the income from her invested capital, these objectives must be sought without jeopardizing principal values.

Prevailing Economic Conditions

A survey of prevailing economic conditions reveals that, generally speaking, business conditions are sound. Since the Presidential election of last November the country has entered upon a period of slowly expanding business, interrupted only by seasonal influences. While, in general, pessimism has disappeared, optimism, on the other hand, has not yet become unbalanced. Commodity prices have been rising slowly and thus far no symptoms of a boom or unhealthy inflation are yet in evidence. There is an ample supply of credit available to finance expanding business. Many large corporations hold large reserves of cash or liquid securities, and inventory positions have not become over-extended. Political conditions are favorable and an early reduction in income taxes is anticipated.

Security prices have reflected the conditions enumerated above. On account of the large supply of capital seeking investment, interest rates have been ruling relatively low and as a result long-term bonds have risen in price to the highest levels since the depression of 1920. This condition, in combination with generally improving business, is reflected in the prevailing relatively high prices for many common stocks. It is important, therefore, in the investment of capital to consider the comparatively high levels of security prices now prevailing.

Types of Securities and Their Characteristics

Types of securities react differently under the same set of conditions, with consequent variations in their serviceability to the investor. Long-term bonds, common stocks and short-term bonds each perform distinct and separate investment functions and an understanding of these functional elements is essential in the formulation of a sound investment plan.

The Question of Purchasing Power

Fixed-income-bearing securities (bonds, mortgages or their equivalent) represent dollar values and yield a fixed-dollar income. Fixed-dollar income, however, yields a fluctuating purchasing-power income, varying inversely with commodity prices. Thus, during a period of prosperity or inflation when commodity prices rule higher, the true, or purchasing-power, income from bonds is subject to shrinkage, whereas in a period of depression or deflation the purchasing-power of a fixed-dollar income increases as commodity prices fall. Over long periods of time the fixed-dollar income may appreciate in purchasing power, as occurred in the general price decline in the latter part of the last century, or it may be subject to depreciation such as resulted from the definite upward movement of commodity prices from 1896 to date.

The principal invested in bonds reacts inversely to the trends of money rates and commodity prices and this principal may likewise be subject to fluctuation in purchasing power. The term of a bond, however, limits the extent of dollar fluctuation as a result of

changing factors, long-term bonds being subject to wider movements and short-term bonds remaining relatively more stable. High-grade, short-term liquid obligations are relatively immune from changing interest rates and furnish a means of providing stable and liquid dollar values.

The Merits of Equity Shares

Common stocks, or equities, represent ownership in productive enterprise and consequently reflect commodity values. This type of security yields a variable dollar income, increasing in times of business prosperity, but subject to decrease in periods of business depression. Thus, equities yield a greater purchasing-power income at a time when this is essential to the investor to offset higher commodity prices and the general increase in the cost of living. On the other hand, the purchasing-power income derived from common stocks may possibly be subject to at least temporary decline during a period of depression or deflation.

The principal invested in a group of well selected and properly diversified equities represents a share in the industry of the nation and reflects the economic growth and expansion of the country. As this development, however, in the past has been interrupted temporarily by periods of depression, varying in intensity, the principal invested in a group of representative stocks may consequently be subject to temporary depreciation. Over a period of years, however, capital invested in common stocks will tend to appreciate in value as the industry and commerce of the country forge ahead. Thus, common stocks, properly

grouped, provide a definite lifting force aiding in the permanent building up of invested capital, with corresponding increase in the real income derived therefrom. This function of common stocks has been thoroughly treated and well substantiated by investigations made by Edgar L. Smith of Wood, Low & Co. and by Kenneth S. Van Strum.

Preferred Stocks

Preferred stocks represent a hybrid type of security, combining certain characteristics of both bonds and common stocks. They resemble a bond in that they afford a fixed-dollar income although no promise to pay is involved and no definite security is pledged to protect the holder. On the other hand, they afford only a limited equity in the enterprise, with no share in the increased earnings in times of prosperity, and often with a large degree of risk and possible loss in times of depression. Although many preferred stocks are so well protected by seasoned earning power that the risk appears slight, this type is generally undesirable inasmuch as sound bonds are available which yield only a slightly lower rate of return but which are secured by pledge of physical property and other assets and which at the same time afford the additional advantage of a definite pull to parity with the approach of maturity.

Investment Plan or Policy

Sound procedure as above defined requires the formulation of an investment plan or policy designed to employ and protect capital most effectively in

seeking the objectives desired. Suitable protection and the investment purposes involved require both defensive measures against any possible adverse condition and offensive measures aimed to take advantage of favorable opportunities. Such measures are possible through the combination of the various functions performed by stocks and bonds. As the purchasing-power-income from these basic types reacts in opposite directions under the same set of conditions, a combination of the two will at least result in the maintenance of the purchasing power of the fund as a whole.

Treatment of the fund as a whole and the apportionment of capital among types are essential before an intelligent selection of securities can be made. With the above considerations in mind, the following investment plan and distribution of capital is suggested for our widow investor:

(1) By apportionment of approximately 40%, or $40,000, among high-grade bonds. This fixed-income element will yield a variable purchasing-power income which, although decreasing in periods of prosperity, will increase in periods of depression or deflation, thus tending to offset any possible decline in the purchasing power received at such times from equities. It will also protect against any long-term decline in commodity prices. In addition, this element will provide protection to dollar value of principal secured by pledge of property and credit strength of corporate promissors, the principal being subject, primarily, to movements in interest rates.

Favor Bonds of Short Terms

Interest rates now being near their lower limit it is advisable to select bonds of short or medium maturity which will remain more stable in the event of rising interest rates. In this event, such bonds can be exchanged to advantage for long-term bonds which will have fallen to lower relative price levels.

(2) By apportioning approximately 40%, or $40,000, among high-grade equities, so selected and diversified that they represent the basic industries of the country. This element will perform the following functions:

(*a*) It will increase purchasing-power-income in periods of prosperity or inflation, or in the event of any long-term upward movement in commodity prices, thus protecting the beneficiary against the possible condition of high commodity prices.

(*b*) It will provide a share in the economic growth of the country, thus furnishing the chief offensive means of building up invested capital over a period of time, with resultant increase in purchasing power.

Why Stocks Are Included

Many companies, through the profitable reinvestment of surplus earnings in the business, perform a function of corporate savings which is ordinarily more effective than can be accomplished by the investor from his own income. A selection of common stocks of companies which are reinvesting successfully in the business a large portion of their earnings constitutes a sound method for accomplishing appreciation of principal and growth of income.

Although common stock prices are now ruling relatively high, to omit this type of security in the hope of purchasing at lower levels would be to speculate on a decidedly uncertain trend. In the meantime, the investor would be lacking protection against inflation, with possible loss in purchasing power.

Keeping Part of Fund Liquid

(3) An apportionment of approximately 20%, or $20,000, in high-grade, liquid, short-term securities. This element will provide a stabilizing influence and will make available an adequate supply of stable and liquid capital which can be utilized advantageously to acquire additional high-grade equities during any future period of depression or liquidation. When this shall have been accomplished this fund should be re-established in suitable proportions by the sale of a portion of equities during a period of prosperity when common stocks are ruling at relatively high prices. Income from this liquid fund is sacrificed in order to gain the advantage of appreciation of principal over a period of time and to afford adequate protection to the fund as a whole.

Selection of Securities

The following securities are selected to satisfy the requirements of the investment plan. Risks are sufficiently diversified, geographically and industrially, to protect against special or local conditions through the action of the laws of average. At the same time, definite limits are established to permit effective control:

Bond Fund

		Approximate price as of July 31, 1925
$6,000	Kansas City, Ft. Scott & Memphis 4s, 1936	85
5,000	Chicago, Rock Island & Pacific 4s, 1934	86
4,000	Great Northern Railroad 7s, 1936	110
4,000	Erie-Jersey R.R. 6s, 1955	103
4,000	Kansas City Southern 5s, 1950	89
4,000	Western Pacific 5s, 1946	93
4,000	Rio Grande Western 4s, 1949	74
4,000	Chicago, Milwaukee & St. Paul 6s, 1934	103¾
4,000	Armour & Co. 4½s, 1939	89
4,000	Southern Utilities Co. 6s, 1933	103
	Total invested capital..... $39,990.00	
	Total income..... 2,180.00	

Cash or Liquid Fund

$5,000	St. Louis, Iron Mountain & Southern 4s, 1929	95
5,000	Columbia Gas & Electric 5s, 1928	100¼
5,000	Cleveland, Cincinnati, Chicago & St. Louis 6s, 1929	102½
5,000	Chesapeake & Ohio 4½s, 1930	98
	Total invested capital..... $19,787.50	
	Total income..... 975.00	

Common Stocks

Shares		*Div. rate*	
	Rails:		
20	Atchison, Topeka & Santa Fe	$7.00	120
20	New York Central	7.00	117
25	Southern Railway	5.00	98
	Public Utilities:		
30	Public Service Corp. of New Jersey	5.00	76
30	Consolidated Gas of New York	5.00	89
50	Consolidated Gas of Baltimore	2.00	44
	Industrials:		
20	American Tobacco "B"	7.00	98
20	American Type Founders	8.00	117½
20	Allied Chemical & Dye	4.00	91
20	California Packing	6.00	115
30	National Supply	3.00	59
25	Gulf Oil	1.50	76
30	Union Carbide & Carbon	5.00	68
30	Westinghouse Electric & Mfg.	4.00	73

COMMON STOCKS

Shares		*Div. rate*	*Approximate price as of July 31, 1925*
	Industrials: *Continued.*		
6	Home Insurance Co.	$18.00	365
18	International Harvester	5.00	117
20	U. S. Steel	7.00	118
20	May Department Stores	5.00	119
	Total invested capital	$39,706.00	
	Total income	2,140.50	

RECAPITULATION

Total invested principal	$99,483.50
Total income derived therefrom	5,295.50

CONCLUSION

The common stocks mentioned above represent a cross-section of American industry and the individual companies are in a condition of financial strength to pass through a period of sustained depression without serious impairment of their position.

The investment plan and the securities selected meet the requirements of prevailing economic conditions. Capital, no matter how invested, is subject to changing conditions and in view of the complexity of the problems that might arise in the future our widow beneficiary should seek continuously the aid of impartial and experienced investment advisers.

III

INVESTING FOR A WIDOW

By WILLIAM ARTHUR BROWN

Awarded the third prize of $250 in Barron's contest

It is a well known fact that it is easier to make money than to keep it. The widow's problem is not only how to keep her capital intact and her interest secure but also how to keep her purchasing power unimpaired.

The first half of her problem is fairly easily solved. We can generally find sound bonds, whose interest is as sure as that of the United States government bonds and whose security is almost as good. There may be some fluctuations in their market price, but rarely any doubt as to the bonds being paid in full at maturity.

Keeping Purchasing Power Intact

The second half of the problem, how to keep her purchasing power unimpaired, is a much more difficult question. Experiences of the last few years have thoroughly demonstrated this fact. For example, an investment of $100,000 at 5% in 1913 in high-grade bonds was equally sound in 1920 and the income was exactly the same, namely, $5000. However, the 1920 dollar's purchasing power was 40% of that of 1913, the real value of the income having shrunk 60% in that time.

Such changes in the purchasing power of the dollar have been known to occur throughout investment history. Even if there were not these most incon-

venient occasions, the widow not only needs to have her purchasing power unimpaired but needs to have it increased in order to maintain, and, if possible, to better her relative position in society as the standards of living gradually increase. The primary objective, therefore, is first to maintain her purchasing power in the face of a constantly varying dollar, and second, to accumulate additional purchasing power.

A Steady Income Necessary

In order to accomplish this object we must find an investment that will yield more income when the purchasing power of the dollar decreases. Common stocks of sound and well managed companies in our basic industries fill this need, for the income from stocks increases under the very conditions that allow the purchasing power of an income from bonds to decrease. That is, the incomes from these two classes of investments react in opposite directions to the same set of conditions. Maintained purchasing power, our objective, therefore, can be obtained by a distribution of the widow's capital between the two classes of securities: bonds which pay a fixed income and common stock which pays a variable income.

The increase in our standard of living has been caused by the growth and development of the resources and industries of our country and it is necessary for the investor to share in this growth and development if she wishes to maintain her position, and, as mentioned previously, common stocks offer the best means of accomplishing this need.

Why Common Stocks Are Chosen

Many conservative investors will protest against stocks, declaring them to be too speculative for a widow. Mr. Kenneth S. Van Strum in his series of articles published in Barron's, "Investing in Purchasing Power," has convincingly shown that in a well diversified list of common stocks, even though there be substantial losses in both income and principal on specific stocks included in the list, over a period of years the income has been fully as certain and the principal fully as secure as an investment in very high-grade bonds. He has also shown that in an era of declining commodity prices when profits are supposed to shrink, and, therefore, the money value of common stocks, the common stocks of the larger corporations have done practically as well as bonds. For these reasons, a well diversified list of common stocks of the best companies in the country's industries is suggested as assuring her of a participation in the country's prosperity.

Present market conditions make the problem of advantageously investing the widow's funds a very difficult one. High-grade bonds, into which a part of her funds should be placed, are now selling at comparatively high prices and in a rising money market bonds of this kind, both long and short term, would sell off.

The Selection of Bonds

Another factor to be considered in the present market is that a large number of the better-grade bonds with a high rate are selling above their redeem-

able price and quite naturally with easy money rates many corporations are calling in their high-coupon bonds. Securities of this character hold forth little attraction to the widow, who is interested in a permanent investment policy and desirous of obtaining a fair yield together with possibilities of appreciation of the principal. Therefore, she should buy high-grade issues which are non-callable for the next few years; issues selling below their present call price and those issues which cannot be called prior to maturity.

For Diversification

The intangible hazards which surround every investment, the necessity for minimizing risks, make essential a list so arranged that no one catastrophe can affect more than a small part of the widow's investments. In order to get the desired arrangement the list must be diversified not only as to class but as to amount, geography, maturity and marketability.

Diversification as to class is very important. The largest portion of the funds should be placed in public utilities and railroads, about 30% in each. A smaller proportion, about 15% to 20%, should be placed in industrials; the industrial bonds yielding more and offering greater possibilities of appreciation, which would help to offset possible losses. The unallotted portion should be spread among government and foreign bonds and some first mortgages on real estate.

The principle of diversification should be carried still further within each class. That is, the portion of the funds invested in railroad bonds should not be invested entirely in railroads dependent principally

on one kind of traffic, for example, soft coal. Rather the funds should be divided among the obligations of a soft-coal road, a trunk line and a transcontinental road.

The Question of Marketability

The bond list should be diversified geographically to reduce possible loss from fire, flood, earthquake, crop failures and political upheavals. The maturities should be spread among long, short and medium, which would protect the widow's principal in either a rising or falling bond market. Finally, there should be diversification as to marketability, because if a portion of the bonds is readily marketable the investor will be able to avoid the sacrifice either of yield or of principal in event of forced liquidation.

Ignoring Present High Levels

The same conditions that have caused the recent rise in bond prices have also enhanced stock prices until today the common stock average is the highest in its history. However, the stocks chosen for a widow should be those having an investment rating and which will not be seriously affected by the fluctuations of the market. In selecting, these stocks should be diversified as to class, amount, geography and marketability.

Investment stocks will need very little, if any, more watching than good bonds and the widow can very easily safeguard her list by taking it to a reputable investment banker several times a year to have him check it for her.

The Investment List

Having outlined the principles of the investment plan, the next step is to select securities best suited to meet its requirements. The following list is suggested as filling this need:

	Cost	*Income*
Rails		
Baltimore & Ohio 1st 4s, 1948	$895	$40
Canadian Nat'l Rwy. eq. 7s, 1935	1,110	70
Delaware & Hudson 5½s, 1937	1,020	55
Mo., Kan. & Tex. 1st 4s, 1990	845	40
Pennsylvania R.R. 6½s, 1936	1,100	65
Pere Marquette 1st 4s, 1956	845	40
Virginian 1st 5s, 1962	1,000	50
Public Utilities		
American Gas & Elec. deb. 6s, 2014	$980	$60
Kansas City Pwr. & Lt. 1st 5s, 1952	995	50
North American Ed. 6s, 1952	1,015	60
Pacific Gas & Elec. 6s, 1941	1,050	60
Northern States Pwr. 1st & rfg. 5s, 1941	975	50
Southern Calif. Edison gen. & rfg. 5s, 1944	925	50
Industrials		
Amer. Smelting & Ref. 1st 5s, 1947	$985	$50
Brier Hill Steel 1st 5½s, 1942	1,000	55
Bush Terminal 1st 4s, 1952	875	40
E. I. du Pont Powder Co. deb. 4½s, 1936	950	45
United States Steel s. f. 5s, 1963	1,050	50
Miscellaneous		
City of Copenhagen 5½s, 1944	$980	$55
City of Oslo s. f. 6s, 1955	985	60
Dutch East Indies 5½s, 1953	995	55
Kingdom of Norway s. f. 5½s, 1965	965	55
Total	$21,540	$1,155
Stocks (Common)		
American Tel. & Tel. — 50 shares @140	$7,000	$450
Atch., Top. & Santa Fe — 75 " @119	8,925	525
General Electric — 10 " @290	2,900	80
Pennsylvania R.R. — 100 " @ 46	4,600	300
United Fruit — 10 " @230	2,300	100
Westingh'se El. & Mfg. — 100 " @ 73	7,300	400
Total	$33,025	$1,855

Conclusion

If $3000 par value of each of the above bonds were purchased, this would make an investment of $64,620 and an income of $3465. The par value of the bonds would be $66,000 and in addition the United States Steel sinking fund 5s, of 1963, will be redeemed ultimately at 110. This would make the maturity value of the entire amount $66,300. The widow's annual income on this investment would be 5.36%. The amount invested in common stocks would be $33,025 with a present income of $1855 or 5.60%. The grand total investment would be $97,645 with a total present income of $5320 or 5.44%. There would be remaining about $2355, some of which would be used in payment of accrued interest and the rest should be put in a bank for the widow to draw on until the income from her investments started.

The above investments are submitted as offering sound diversification, whatever marketability is needed and a substantial yield. The division of the widow's capital between loans to and participations in industry will substantially compensate for the fluctuating purchasing power of the dollar. It will also aid the investor somewhat to increase the number of dollars of her principal. In short, it will tend to eliminate speculation as to the future of commodity prices.

IV

INVESTING FOR A WIDOW

By HENRY L. WALKER

Awarded Honorable Mention in Barron's contest

THE problem to be considered in this paper concerns the investment of $100,000, the entire fortune of a young woman who has been left a widow with two children.

It is obvious that in such a case a number of general factors must be carefully considered before we can formulate a comprehensive investment scheme, or choose our specific securities.

SAFETY

First: Safety. Manifestly, our prime concern must be to insure the integrity of the principal invested, and to provide for continuity and regularity of income. This is true, naturally, in the case of any investment; but it is of especial importance where the capital is that of one not actively in touch with business affairs, and who depends upon the income from investments for livelihood. Such is the case here. Hence, the idea of complete security must underly our investment structure, and each medium chosen must meet the highest tests of soundness. The principal factors that have been considered in testing the securities suggested in this paper are:

1. The solvency and credit of the borrower.

2. The extent and value of the property represented by the security.

3. Sufficiency and regularity of the earnings of the borrower.

4. Future prospects of the borrower.

Only securities showing well by all these criteria have been selected. As a result, it will be found that each investment suggested is designated within the highest classifications by all the standard rating services.

Income

Second: Income. Closely associated with the problem of safety is that of income. With two children to raise and educate, our client will require the maximum yield compatible with safety. It is axiomatic that, generally speaking, yield varies in inverse ratio to security. Since it has been stated that only issues of the highest grade could be included in such a list as we are at present constructing, it becomes apparent that income must be somewhat smaller than could perhaps be obtained were less regard paid to the safety factor. Our client will readily appreciate, however, the wisdom of making a slight sacrifice in regard to income, in order to insure the security of her principal and the regularity of her income.

A careful study of the investment markets at the present time seems to indicate that a high-grade investment list should yield an income of between 5% and 6%. Having decided to confine ourselves to such a list, our next effort must be devoted to securing for our client a return of between five and six thousand dollars per year upon her capital.

Diversification

Third: Diversification. This factor is corollary to the first, that of safety. That is to say, thought must be given not only to the soundness of the individual securities but also to the soundness of the list as a whole. This is to be achieved by spreading our capital among different industries; diverse geographical sections; various maturities; and several types of securities. For it must be realized that no matter how sound and safe a security, there are constantly at work a thousand factors affecting its value, and occasionally an untoward combination of circumstances that could scarcely have been foreseen will seriously impair the value of a formerly sound security. The only safeguard against such remote contingencies is careful diversification. Given this, the chance of serious impairment of capital is practically effaced. In order to achieve a complete diffusion, a few more issues have been included in our list than is usual under ordinary practice.

Liquidity

Fourth: Liquidity. It has been considered wise to confine the list to issues of the highest degree of salability. Too often a woman in the circumstances of our client finds her capital tied up in sound but inactive securities, and, when some emergency demands ready funds, difficulty is encountered, and sometimes substantial loss accrues. The bulk of the list, therefore, is placed in listed and active securities. This insures liquidity, and, moreover, enables our client to keep

informed of the status of her investments through the financial journals and even her daily paper.

Bonds vs. Stocks

Fifth: Bonds *vs.* Stocks. It is often argued that common stocks should find no place in such a list as is now being compiled. Common stock represents merely an ownership in the corporation, and the shareholder is subject to the fluctuations in his company's fortunes. He is not assured of a definite income, and his claim on the property is subject to the claims of all the creditors and senior security holders. Such a status, it is contended, is not one for such an investor as the one whom we are considering. This, generally, is true. As a practical matter, however, it is to be observed that the common stocks of a number of great American enterprises are represented by a solid equity, are regular in dividend disbursements, and are from every viewpoint as conservative investments as the ordinary high-grade bond. They have, in addition, several other advantages which make it desirable to include a few good common stocks in any investment list.

Advantages of Equity Issues

The first of these is the fact that they yield a somewhat larger return than bonds of the same general grade. In the second place, they offer a greater possibility of appreciation in value than do bonds. As our country grows, our business enterprises must do likewise. And, from the nature of the thing, it is the common stock which reflects the growth in a corporation's strength and earnings.

A comparison of the prices of some of the leading stocks on the New York Stock Exchange with the prices of the same shares at the beginning of this century will illustrate this point very forcibly. The third, and perhaps chief, advantage of the common stock as an investment medium is the balance it lends to an investment list. By this we refer to the fact that the long-term trend of stocks and that of bonds are often in opposite directions. A decline in the value of the dollar, as shown by rising commodity prices, will necessarily reduce the purchasing power of the fixed income on bonds, hence depressing their prices and raising the interest rates on new issues. In such a period, however, business is usually prosperous, and corporate earnings large. This is reflected in increased dividends on stocks. The first two decades of this century have seen such a period. Recent studies have shown the advantage accruing to the holder of common stocks during such a movement, as against a holder of conservative bonds. Most economists scout the recurrence of a period of this sort for years, and believe the price of capital will continue at present levels for some time.

Nevertheless, the balance lent to a list by a few conservative common stocks is reassuring, and would seem to offer no disadvantages equaling its considerable benefits.

For these reasons, approximately 25% of our list is composed of common stocks in leading American corporations.

The Investment List

Bearing in mind all these factors, our list has been constructed roughly in this fashion:

Railroad bonds	25%
Public utility bonds	20
Foreign government bonds	15
Real estate mortgage bonds	10
Industrial bonds	5
Common stocks	25

No tax-exempt issues have been included, since their exemption feature would be of little value on an income of this size, and would not compensate for their lower return.

Of the bonds, long-term maturities (over ten years) compose about 74.2%.

Total amount invested is $99,694. This leaves a balance of $303 to cover commissions, etc.

Prices of securities are those of Saturday, August 8, and accrued interest through that date is included in bond prices. Prices and interest are figured approximately. Current yield on the stocks is computed on market prices, without regard to the dividend dates.

Only the general reasons for the choice of each security are set out, as all are well known issues and details concerning them may be obtained at length in any reference manual.

Net income is $5770 per year.

I. Railroad Bonds

Amount		*Price*	*Current yield*	*Total*
$5,000	Pennsylvania Railroad 15-year Secured Gold 6½s of 1936	110	5.90%	$5,507

This issue is secured by the pledge of mortgage

bonds and other securities of the borrower and its subsidiaries. Its position is extremely sound, as shown by the fact that it is legal for savings banks and trust funds in several states.

Amount		*Price*	*Current yield*	*Total*
$5,000	Delaware & Hudson R.R. 10-year Secured 7s of 1930....	109	6.42%	$5,516

These notes are in much the same position as the issue above. They are a high-grade short-term investment.

Amount		*Price*	*Current yield*	*Total*
$5,000	New York, Chicago & St. Louis R.R. Refunding 5½s "A," of 1974.....	96¼	5.72%	$4,909

This is a general obligation of the profitable and important "Nickel Plate." The position of the issue will be even stronger under the proposed consolidation.

Amount		*Price*	*Current yield*	*Total*
$5,000	New York Central & Hudson River R.R. Refunding and Improvement 5s of 2013....	100¼	4.98%	$5,100

This obligation is secured by liens of several grades on large parts of the New York Central System (which has assumed the obligation), on terminal properties, and on various pledged securities. It is legal for trust funds and savings banks in many states, including New York.

Amount		*Price*	*Current yield*	*Total*
$5,000	Central Pacific Guaranteed 5s of 1960.....	98	5.10%	$4,905

The guarantee of the Southern Pacific System, of

which Central Pacific forms a part, gives this bond a high investment status.

II. Public Utility Bonds

Amount		Price	Current yield	Total
$5,000	American Gas & Electric Debenture 6s of 2014	98	6.12%	$4,981

This is the obligation of a leading public utility holding company, whose operating subsidiaries are efficient, profitable, and well diversified geographically. Although an unsecured obligation, its investment position is strong.

Amount		Price	Current yield	Total
$5,000	Southern California Edison General & Refunding 6s of 1944	104	5.76%	$5,206

This powerful and growing company operates a comprehensive system for the generation, transmission, and distribution of electric energy through Southern California, upon which this bond issue is a lien.

Amount		Price	Current yield	Total
$5,000	Alabama Power Co. 1st & Refunding 6s of 1951	104⅛	5.74%	$5,256

The Alabama Power Co. is an aggressive factor in the development of electric power in the South. This bond is secured by a general mortgage on the properties of the company, subject to $10,200,000 underlying securities.

Amount		Price	Current yield	Total
$3,000	Commonwealth Edison 1st 5s of 1943	101	4.95%	$3,095

The Commonwealth Edison Co. controls the electric-

lighting and power business of Chicago. This issue, together with two others, is secured by a first mortgage on the entire property of the company. It is the highest-grade investment.

Amount		*Price*	*Current yield*	*Total*
$2,000	Union Electric Light & Power of St. Louis 1st 5s of 1932..	100	5.00	$2,043

This is a short-term obligation of an efficient operating company, and is well secured by property and earnings.

III. Foreign Government Issues

Amount		*Price*	*Current yield*	*Total*
$5,000	United Kingdom 5½s of 1937..	105	5.23%	$5,156

This issue has the usual standing of a British obligation, of which nothing further need be said.

Amount		*Price*	*Current yield*	*Total*
$5,000	Kingdom of Norway 6s of 1952	101	5.94%	$5,156

The Kingdom of Norway, like the other Scandinavian states, enjoys sound fiscal administration and high credit in world markets.

Amount		*Price*	*Current yield*	*Total*
$5,000	Republic of Austria Guaranteed 7s of 1943.....	99	7.07%	$5,017

Principal, interest, and redemption payments are guaranteed in varying proportions by Great Britain, France, Czechoslovakia, Italy, Belgium, Sweden, Denmark and Holland. By reason of the international guarantee, this bond is rendered very attractive. Its

security is also aided by the rehabilitation of Austria's finances under international supervision.

IV. Real Estate Mortgage Bonds

Good real estate mortgage bonds are a particularly safe and conservative form of investment, and are a stable and reliable element in any investment list. For that reason we have included three attractive issues of this type. They are issued by two well known houses specializing in this kind of security, and which have a uniform record of successful issues. Each bond chosen is secured by a valuable property and an assurance of adequate earnings. While they are not quite so liquid as the other securities in the list, this factor is compensated for by an attractive yield.

Amount		*Price*	*Current yield*	*Total*
$5,000	1 Park Avenue Building 1st Fee 6s of 1939 (S. W. Straus & Co.)	100	6.00%	$5,081
3,000	263–271 West 38th Street 1st Mortgage 6s of 1935 (Puritan Mortgage Co.)	100	6.00	3,030
2,000	Brocklebank Apartments of San Francisco 1st Fee 6s of 1941 (S. W. Straus & Co.)	98½	6.15	1,972

V. Industrial Bonds

Amount		*Price*	*Current yield*	*Total*
$2,000	American Smelting & Refining Co. 1st 6s "B," of 1947	107	5.60%	$2,162

The company issuing this bond has a diversified business, mining and smelting copper, silver, lead, zinc, and other minerals in various states of the Union, and in Canada, Mexico, and South America. It is thus safeguarded against the usual hazards of a mining

concern. The bond itself is well secured by a general mortgage on the company's properties, and by heavy earnings.

Amount		*Price*	*Current yield*	*Total*
$2,000	International Paper Co. 1st & Refunding 5s of 1947.....	90	5.55%	$1,810

The International Paper Co. is the dominating unit in an important industry. Its present policy of expansion promises continuity of earnings in the future. The first 5s are the senior obligation of the company.

Amount		*Price*	*Current yield*	*Total*
$1,000	B. F. Goodrich Co. 1st 6½s of 1947.....	104	6.25%	$1,046

This is the first mortgage obligation of a leader in the rubber and tire industry. It is secured by adequate earnings and a strict indenture.

VI. Common Stocks

Shares		*Price*	*Current yield*	*Total*
50	Atchison, Topeka, & Santa Fe R.R.....	120	5.83%	$6,000

All Atchison obligations are rated as standard investments. The common stock, in addition, seems to possess an excellent chance of an increased income as the road's earnings expand.

Shares		*Price*	*Current yield*	*Total*
50	Westinghouse Electric & Manufacturing Co.....	75	5.33%	$3,750

The prodigious growth of the electrical industry in America, which seems likely to continue unabated, promises increased dividends and value to the common

stock of this well managed equipment manufacturer. The investment position of the stock is strong.

Shares		*Price*	*Current yield*	*Total*
50	Louisville & Nashville R.R....	119	5.04%	$5,950

The Louisville & Nashville is a strategically situated road which serves a rich and growing territory, and its outlook appears excellent. The book value of the stock is far in excess of its price, and dividends are amply covered by earnings.

Shares		*Price*	*Current yield*	*Total*
50	American Telephone & Telegraph Co.....	140	6.42%	$7,000

This tremendous concern controls one of the country's chief means of communication. Its business is vital to our national life, and is constantly expanding. The company is conservatively managed, and the common stock is a real investment.

V

INVESTING FOR A WIDOW

By REED BRICKER

Awarded Honorable Mention in Barron's contest

THE situation of a woman with two children entirely dependent upon the return from her investments is a problem calling for the most careful discrimination to provide an adequate income, to eliminate worry, and to minimize the burden of responsibility. The investment policy outlined below contemplates therefore entirely bonds and common stocks, excluding real estate, real estate mortgages, and unlisted securities.

The locality in which the investor makes her home has not been taken into consideration. The selections have been made for a long term, and as the permanency of one's home cannot be assured it has been thought best to confine the list to those issues enjoying a general market. In compiling such a list, we have in this country many securities from which to choose that are not listed, or even familiar to the trader. While a higher yield can oftentimes be obtained from this class, none has been included, principally because of the difficulty experienced in keeping informed as to the welfare of the issuing company when regular earnings statements are not published. With a few exceptions, the securities suggested for this fund are listed on the New York Stock Exchange, where the publication of regular earnings statements is required.

Safety

The first point to receive consideration is, of course, safety. The tendency in a fund of this type, oftentimes, is to successfully avoid the temptation of a high return and to overstress safety of principal, regardless of the adequacy of the income. If this sum of money were applied to the purchase of only a few issues, attention would necessarily be confined to the best bonds. Fortunately, however, a fund of this size allows us more latitude.

It has been said that there are two ways of avoiding loss in investment. One is to select securities safe almost beyond a doubt. This involves acceptance of a low rate of interest, and it does not completely remove chances of loss unless selections be limited to highest-grade government, state and municipal issues. This method of securing safety, by purchase of highest-grade corporate issues or government bonds, is the one generally required by law of those responsible for funds held in trust.

The other way to avoid loss in investment is to select securities in which the income therefrom will not only provide interest proper but also a premium included in the interest, sufficient to offset over a term of years any losses of principal incurred. Such issues may or may not be conservative, but all should afford good values, as measured by the probability that risk will not exceed the recompense therefor, and through diversification, avoid concentration of risk.

This, then, is the principle underlying the make-up of our list:

1. By careful selection, to place the bulk of the fund where increasing security will make repayment of principal at maturity more certain;

2. To include in the return a slight premium over the interest proper which will tend to offset the losses that may occur here and there; and

3. To provide for the gradual building up of the estate and the income therefrom.

Present Market Levels High

To the business man and the shrewd investor the question of "when to buy" ranks in importance with "what to buy." At the time of collecting this material (July 30, 1925) our security markets stood at very high levels. In fact, if bonds should advance another half point they would be, according to the Dow-Jones bond index, at the highest point since the war peak of eight years ago; two points' rise in the familiar Dow-Jones averages of railroad stocks would bring them to the highest points in nine years, while industrial stocks have been for some weeks in high territory for all time.

But the assumption has been made that this fund was to be immediately and permanently invested, as it might not be practicable or convenient in a case of this kind to defer. At the outset, this raises a severe obstacle in the way of obtaining the return that might be desired, and requires even greater discrimination that good values be purchased.

During the next depression, it is to be expected that bonds will break and recover due to stock market liquidation and temporary firmness of interest rates. During a somewhat parallel movement in the seventies

bond prices went down from 102 to 96 and back up to 108, whereas stock prices almost simultaneously went down from 120 to 80 and then after a partial recovery continued on down to 60. Were it deemed advisable, therefore, to take advantage of the temporary decline in bonds which is likely to occur some time in the near future, and assuming that its extent would be similar to the decline in the seventies, the average yield of our bonds would be increased about .6 of 1%, or about $400 annually.

Since we have assumed, however, that it is impracticable to delay the investment of this particular fund, a study of the factors bearing on the future of money and capital reveals, fortunately, that economic tendencies favor us in our endeavor to invest for the long term. Let us consider for a moment.

Declining Commodity Prices

The year 1921 witnessed the turning point in the advance of commodity prices which has been in progress since the beginning of this century. Broadly speaking, the swings in the price of capital, or yield of investment issues, are twenty-year movements, and indications surely point to the fact that we have seen the end of an upward swing and that we are now entering upon a downward movement of, roughly, equal duration.

Accordingly, we may expect the main trend of bond yields to be downward for perhaps fifteen years. This trend is made more certain by the fact that as a country becomes older, its accumulations of capital become larger, thereby lowering the average price of that

commodity. In 1902 good railway bonds sold on a $3\frac{7}{8}\%$ basis and municipals on a $3\frac{1}{4}\%$ basis. Many students expect to see yields return to this level, or even lower, before this downward swing in the price of capital terminates.

It follows then, that if we can satisfy requirements without the .6 of 1% greater yield which might be obtainable in these same issues some eighteen months hence, we may purchase our bonds now with reasonable confidence as to their course over a period of years.

Callable Bonds Avoided

The trend of the price of capital has an important bearing on our problem from two other angles: the term of the bonds, and their redemption features. That this country's corporations are shaping their financial policy in accordance with the theory outlined above is attested by the fact that in a recent six months' period $140,000,000 bonds were called and paid off before maturity. If it was to the advantage of the corporations to eliminate these bonds, the converse is also true that it was to the investors' disadvantage to have them paid off.

This anticipated trend in the price of capital has, therefore, affected the selection of our bonds, which comprise two-thirds of our list, as follows: 26% are low-coupon bonds, 31% non-callable, 18% United States Government issues of the most distant maturities, 7% long-term foreign governments redeemable by lot, and the remaining 18%, as much below the call price as were available.

Low-Coupon Bonds

The reason for preference for low-coupon bonds wherever it was possible to include them, and the popular fallacy of buying high-interest-rate callable bonds is clearly shown in the case of two Northern Pacific issues, secured under the same mortgage—the old issue of refunding and improvement 4½s and the new refunding and improvement 6s. If interest rates are back to, say, 4% in 1936, the 4½s should be selling around 112, up twenty-seven points from present prices. The 6s, however, now selling at 106 cannot be much over four points higher, for they are then redeemable at 110.

As has been brought out earlier in this discussion, diversification has been relied upon to increase the element of safety. This distribution has been accomplished by limiting the proportion of capital invested

1. in any one security;
2. in any one kind of enterprise;
3. in any one territory.

Maturity dates have likewise been scattered, so nearly as is consistent with the trend of capital outlined above. Obtaining a fairly even monthly income was of course also a matter requiring consideration at this point.

One-Third in Common Stocks

We now come to the stocks in our list.

There has been so much written within the past year on the value of common stocks as long-term investments that it seems unnecessary to discuss the

subject, even if space permitted. The purpose which they serve, however, in a fund of this kind is so valuable that if we have faith in the future of our country we cannot afford to omit them entirely. Admittedly, it requires courage to purchase common stocks for a woman investor at a time when averages are in such high territory.

Notwithstanding present market levels, so long as we believe that the industrial and commerical future of this country is assured, over a term of years we may confidently look to reflection of continued growth and strengthening financial position in the shares of our leading corporations. This would apply, even, to those common stocks bought at this time, providing of course that purchase is not limited to a few issues, or to a few lines of endeavor.

Thirty-five per cent. of our funds has therefore been placed in seasoned rail, industrial, and bank stocks at present prices with the thought that these twenty-one stocks would place our investor in the most favorable position possible to profit from those businesses which are likely to enjoy the greatest progress and to suffer the least from destructive competition, either foreign or domestic. Common stocks appear as the best way to invest in our industrial corporations, and consequently almost half of this portion of the fund has been so placed, with industrials entirely omitted from the list of bonds.

Estate Should Grow

This provides us with a valuable and essential medium for both building up the estate and for increasing the return, which, due to the necessity of investing

under present market conditions, has been held down. And in fact, this is the only way in which these desirable ends can be realized, for while it is conceivable that a bond may become quite worthless it cannot appreciate materially above its face value, or increase its income.

Remarkable Dividend Records

American Locomotive illustrates how strong common stocks aid in building up an estate. Ten shares purchased by our investor at the highest point in the 1919 bull market would have cost $1175. Through stock dividends she would now own twenty shares with a market value of $2280 and would have received $595 in dividends, which averages annually $293 or 25% on the original investment. Ten shares of General Electric at the 1919 peak would have cost $1760. Up to the present time, this would have brought to our investor an additional share of General Electric, sixteen shares of special stock now worth $181 and eleven shares of Electric Bond & Share worth $720, with $530 in cash dividends. This amounts to $2862, or 28% annually.

Bank stocks are valuable in this list as they combine in a high degree safety of principal, assured income, and appreciation in market value. Furthermore, our investor may expect to receive at intervals either large cash returns, stock dividends, or rights to subscribe to new stock on highly favorable terms. These points, together with the fact that there is only one class of stock, that these institutions are not dependent upon conditions in any one industry, crop or locality, and that they are under rigid supervision, easily warrant for these stocks a place in our fund.

No Income Tax

Stocks serve another important purpose in that their presence in the group renders our investor exempt from federal income tax. Municipal bonds and other tax-free issues have consequently been omitted because the investor would be paying through lower yield for an unnecessary tax exemption.

This completes the list. The annual income is $5169; the monthly income is as follows:

January and July....	$342.50	April and October...	$565.00
February and August.	300.00	May and November.	294.50
March and September	360.00	June and December..	722.50

These figures do not include extra or cash dividends paid on the stocks.

In the case of the rail and industrial stocks, it would of course be very much to the advantage of the investor if purchase could be deferred until the next market depression. Following the bull market of 1919, the rails used in the Dow-Jones averages declined twenty-seven points in thirty-one months or 29%, and the industrials declined fifty-six points in twenty-one months or 46%. If the stocks in our list could be acquired after a decline from present levels of even one-half the amount indicated above (*i.e.*, 15% for the rails and 23% for the industrials) assuming that dividend rates remain as at present, the annual return from this portion of the fund would increase from $1240 to $1560, or 28%.

Larger Income Possible

If the addition of three or four hundred dollars to the yearly income were sufficient inducement to

warrant delaying the purchase of the stocks, provision could be made with the investor's bank to carry this out. Third Liberty $4\frac{1}{4}$s of 1928 would be suggested as the best temporary medium for this part of our fund. This would also materially improve the basis on which our stocks were carried.

If it could safely be assumed that the investor's home would remain within a certain state, personal property taxes might, of course, be lessened by favoring securities of that state's corporations in making our selections. However, since it has seemed unwise to make this assumption and since we have endeavored to distribute investments as generally as possible, this consideration has been neglected.

The expenses incidental to the children's entering college might be met by designating certain bonds in the list with suitable maturity dates to be used for this purpose as they are paid. This is not to be desired, as it violates our principle of building up the fund, instead of allowing it to diminish. It is suggested that in addition to the savings account into which our investor's surplus income should go, she take out insurance policies of the endowment type to meet these expenses.

It is of course impossible to plan an investment program that will care for every contingency arising over a period of years. The securities here enumerated have been selected with care; it is only reasonable to expect that the fund will be supervised in the future in the same manner. The investor's bank would doubtless be the best agency for this, adhering to the principles outlined in replacing any issues which may be called for redemption.

The List of Securities

Government Bonds $12,419

Amount		*Price*	*Yield to maturity*
$2,000	Liberty First 4¼s (callable 1932)..	101.91	3.94%
6,000	Liberty Fourth 4¼s (callable 1933)	102.15	3.95
4,000	Treasury 4¼s of 1952 (callable 1947).....	106.28	3.83

Average current yield 4.10%

Foreign Governments $8,828

$2,000	Gov't of Argentine 6s, 1958 Total cost..	$1,920
4,000	Australia 6s, 1934 " " ..	3,900
3,000	Netherland S. F. 6s, 1972 " " ..	3,008

Average current yield 6.18%

Railway Bonds $13,140

$5,000	Northern Pacific gen. lien 3s, 2047.	61	4.87%
4,000	Pennsylvania gen. "A" 4½s, 1965..	93	4.95
4,000	Southern R'y dev. & gen. 4s, 1956*	78	5.49
5,000	West'n Maryland 1st 4s, 1952.....	65	6.70

Average current yield 5.25%

Railway Equipments $9,750

$3,000	Canadian Nat'l Rwy. Eq. 7s, 1935*	112	5.43%
3,000	Grand Trunk Rwy. Eq. 6½s, 1936*.	108	5.52
3,000	Missouri Pac. Eq. Trust 6s, 1935*.	105	5.30

Average current yield 6.00%

Utilities $20,760

$4,000	West'n Union Tel. 6½s, 1936*.....	111	5.15%
4,000	Commonwealth Edison 1st 5s, 1943	101	4.92
4,000	Pacific Gas & Electric 6s, 1941*...	105	5.55
4,000	Kansas City Elec. Power 6s, 1937*.	100	6.00
4,000	Tennessee El. Pow. 1st & R. 6s, 1947.....	102	5.80

Average current yield 5.69%

*Non-callable.

Railroad Common Stocks $8,160

Shares		*Div. rate*	*Price*	*Yield*
20	Atchison Top. & S. F.....	7%	119	5.89%
20	Atlantic Coast Line.....	8	172	4.65
20	New York Central.....	7	117	5.99

Average yield 5.40%

INDUSTRIAL COMMON STOCKS $16,400

		Div. rate	Price	Yield
10	American Tel. & Tel.	9%	140	6.41%
10	American Tobacco	7	98	7.14
10	American Locomotive	8	114	7.01
10	du Pont	10	188	5.31
10	General Electric	8	290	2.76
10	General Motors	6	89	6.72
10	May Dep't Stores	5	118	4.24
10	Otis Elevator	6	131	4.59
10	Underwood Typewriter	3	49	6.11
10	U. S. Realty & Imp.	8	137	5.85
10	U. S. Steel	7	119	5.89
10	Woolworth	3	167	1.80

Average yield 4.88%

BANK STOCKS $10,025

5	Bankers Trust of New York	$20	496	4.00%
5	First Nat'l of Boston	16	320	5.00
5	Ill. Merchants Trust of Chicago	20	483	4.10
5	Cleveland Trust of Clev'd	12	251	4.80
5	Nat'l Bank of Commerce of Detroit	12	320	3.75
5	Bank of Pittsburgh	6	137	4.40

Average yield 4.30%

RECAPITULATION

	Cost	Income
Bonds	$64,897	$3,499
Rail Stocks	8,160	440
Industrial Stocks	16,400	800
Bank Stocks	10,025	430
Totals	99,482	5,169

VI

INVESTING FOR A WIDOW

By DAVID L. SAUNDERS

Awarded Honorable Mention in Barron's contest

How to invest $100,000, the total fortune of a young widow with two children? To begin with, it would seem probable that anyone left a fortune of such an amount must have been accustomed to a rather comfortable standard of living and that in such a family, as the children grow up, the living expenses, particularly those relating to education, will materially increase. Accordingly, it is proposed to invest one part of the capital in securities to yield a fixed income with a high degree of safety, and the other part in securities of a more speculative character giving possibilities of increased yields, the admittedly greater risk being counter-balanced by wider diversification.

Taking Cognizance of Prevailing High Prices

An investment plan, moreover, should be drawn up not only with regard to the prospective needs of the individual investor but also in relation to probable general economic trends. The present (July, 1925), in view of the current high level of prices for both investment and speculative securities, would seem at first glance to be most unfavorable for constructing a permanent investment scheme. For one expert in the management of investment funds and concerned principally with the short-time outlook, it would

probably be best to place the whole sum in a list of short-term notes and patiently to await a more propitious time.

Purchasing Power to Be Increased

It is supposed, however, that a relatively permanent disposition of her funds is contemplated for the young widow. In spite, moreover, of the current low yields on fixed-income securities, it is quite possible, given a substantial period of world peace with a consequent accumulation of capital, that long-time interest rates will fall to still lower levels. Furthermore, on historical precedent and on the prospect of the large imports we will receive in future years in payment of our foreign lendings, the weight of probability is that commodity prices will eventually decline closer to pre-war levels, thereby increasing the purchasing power of the income now purchased. In view, however, of our present great holdings of gold, a straddle must be made; a considerable portion of the capital should be placed in unfixed income securities through which can be gained the profits yielded by a possible temporary inflationary period, and thus the purchasing power, which in the final analysis is more important than the money return, of the widow's income will be preserved.

Fixed-Income Securities

To come to the actual division of the fund, approximately two-thirds of the sum will be invested in fixed-income securities of the highest grade, affording a return of $3440, which, being an amount considerably in excess of that of the average family for the United States, should be sufficient to provide a minimum

decent subsistence. As, however, the widow's total income will not be large enough to come within the high-income surtax brackets, no tax-exempt securities will be used. This portion of the fund will be placed principally in long-term railroad, foreign government, and public utility mortgages. Both railroads and public utilities are enterprises having volumes of business of a comparatively high degree of stability, and in an eventual period of declining prices, with their service rates lagging behind the decreases in their operating costs, the margin of earnings behind their obligations will be strengthened.

Investing in Foreign Bonds

As to foreign government loans, the United States has now become a banker to the world. Accordingly, as the investment positions of the various issues become established, the ultimate investor, like our young widow, should take them up, thereby releasing the funds of those who are in a position to undergo the more speculative risks of subscribing to new offerings. Consequently, the obligations of four governments which have not experienced any material post-war paper money inflation and whose relative economic stability is indicated by a parity of exchange between their currencies and that of the United States have been chosen. Finally, a portion of the sum to be devoted to fixed-income securities will be placed in short-term notes in order to have some liquid funds available without appreciable loss of principal to take advantage of possible more attractive levels for making more permanent investments within the reasonably near future.

Convertible Bonds and Stocks

For the investment of the remaining third of the fund in unfixed income securities, convertible bonds, participating and convertible preference stocks, and common stocks diversified among railroad, public utility, and industrial enterprises are available. The advantage of convertibles is that when the price of the stock for which the bond is exchangeable falls below the conversion point, the bond sells on its investment merits, and, in view of the great speculative activity of recent months, only convertibles still on an investment plane will be used.

At the time of writing (July 23, 1925), moreover, a word or two in defense of purchases of common stocks may be necessary, for in many cases speculative enthusiasm and strong-arm manipulation rather than calm judgment have influenced current prices. Several recent studies comparing the history over the past quarter century of hypothetical investments in lists of stocks and bonds have disclosed that in the long run even a list of stocks chosen absolutely haphazardly at the high levels prevailing in the opening years of the present century fared better over the succeeding years both as to principal and income than a list of the highest-grade mortgages, for a well diversified list of common stocks will participate in the normal growth of the country. With the prospect of a long period of declining commodity prices, however, investments in common shares should be restricted to large-scale producers, which will be able to show goodly profits on a narrow operating margin. Through the investments contemplated a present return of $2305 is

obtainable on the third of the widow's capital placed in unfixed income securities, making a total of $5745.

As to the specific issues chosen, for the amount to be placed in fixed-income securities, the following have been taken:

THREE LONG-TERM RAILROAD OBLIGATIONS

Amount		*Price July 18, 1925*	*Cost*	*Income*
$6,000	Baltimore & Ohio ref. gen. mtg. 6%.....	1995 @102	$6,120	$360
6,000	Canadian Pacific debentures 4%.....	— @ 80½	4,830	240
6,000	Missouri-Kansas-Texas 1st mtg. 4%.....	1990 @ 82½	4,950	240
			$15,900	$840

FOUR FOREIGN GOVERNMENT LOANS

$4,000	Dutch East Indies external gold 6%.....	1962 @100½	$4,020	$240
4,000	Kingdom of Sweden 5½%.....	1954 @101	4,040	220
4,000	Kingdom of Netherlands sinking-fund gold 6%	1972 @107½	4,300	240
4,000	Swiss Government external 5½%.....	1946 @102	4,080	220
			$16,440	$920

THREE MEDIUM-TERM PUBLIC UTILITY OBLIGATIONS

$6,000	Cincinnati Gas & Electric sinking-fund 5½%	1961 @104¾	$6,265	$330
6,000	Detroit Edison general refunding 5%.....	1949 @ 99	5,940	300
6,000	West Penn. Power series E 5%.....	1963 @ 98¾	5,925	300
			$18,130	$930

TWO MEDIUM-TERM RAILROAD MORTGAGES

$3,000	St. Louis & San Francisco prior lien series D 5½%.....	1942 @100	$3,000	$165
3,000	Great Northern gen. mtg. series B 5½%..	1952 @102	3,060	165
			$6,060	$330

TWO SHORT-TERM RAILROAD NOTES

		Price July 18, 1925	Cost	Income
$3,000	Delaware & Hudson gold secured 7%.....	1930 @108¾	$3,265	$210
3,000	Pennsylvania secured 7%.....	1930 @108½	3,255	210
			$6,520	$420
	Total investment in fixed-income securities		$63,050	$3,440

The issues used for the sum to be placed in unfixed-income securities are:

FIVE CONVERTIBLE DEBENTURES

Amount		Price July 18, 1925	Cost	Income
$3,000	Anaconda Copper debentures 7%.....	1938 @102	$3,060	$210
3,000	American Beet Sugar s. f. debentures 6%..	1935 @101	3,030	180
3,000	Pan-Amer. Petroleum & Transport 1st marine equip. 7%.....	1930 @106	3,180	210
3,000	Philadelphia Company gold debentures 5½%	1938 @ 99½	2,985	165
3,000	Southern Pacific 4%...	1929 @ 97½	2,925	120
			$15,180	$885

FIVE PARTICIPATING OR CONVERTIBLE PREFERENCE STOCKS

Shares				
20	Famous Players-Lasky 8% cum. convertible.....	@117	$2,340	$160
15	Midland Steel Products 8% cum. participating.....	@117	1,755	135
40	N. Y. Air Brake "A" common, convertible.....	@ 55	2,200	160
20	Chicago & Northwestern 7% cum. participating.....	@110	2,200	140
20	Western Pacific 6% non-cum. convertible.....	@ 87	1,740	120
			$10,235	$715

TEN COMMON STOCKS

Shares		*Price July 18, 1925*	*Cost*	*Income*
25	American Steel Foundries	($3) @ 40	$1,000	$75
10	American Tel. & Tel.	($9) @141	1,410	90
10	American Tobacco	($7) @ 98	980	70
30	Cuban-American Sugar	($3) @ 29	870	90
10	General Motors	($6) @ 85	850	60
20	Texas Company	($3) @ 52	1,040	60
10	United States Steel	($7) @119	1,190	70
10	Atchison	($7) @119	1,190	70
10	New York Central	($7) @117	1,170	70
10	Southern Railway	($5) @101½	1,015	50
			$10,715	$705
	Total investment in fixed-income securities		$63,050	$3,440
	Total investment in unfixed-income securities		36,130	2,305
			$99,180	$5,745
	Balance for commissions, etc., residue to be left in savings bank*		820	
			$100,000	

*Since the time of first writing the bond market has shown a declining tendency, probably due to selling by the banks in anticipation of autumn credit needs, and any small amounts released by differences from the quotations given here can be added to the savings-bank fund.

SUMMARY

The result is that 63% of the fund is placed in fixed-income issues yielding $3440, or 59% of the total income, and the remaining 37% invested in securities, unfixed as to income, having a present yield of $2305, or 41% of the total. The risk is spread over thirty business enterprises—thirteen railroads, five public utilities, and twelve industrial companies—and four foreign governments. Obligations of debt comprise 78.25% of the amount, while 10.25% is placed in preference shares and 10.75% in common stocks of leading

companies in their respective fields. Maturities are spread out over a long term of years, so that no great amount will come due at any one time, but four short-term obligations having a present value of $12,625 have been taken in anticipation of more favorable investment opportunities. Finally, in view of the large and diverse number of issues used in this plan, it would be well for the young widow to keep in frequent touch with a professional investment advisor, for conditions affecting the value of securities are constantly changing and no scheme can be devised whereby issues of even the highest grade may be put away and forgotten without eventual loss to the investor.

VII

INVESTING FOR A WIDOW

By WILLIAM R. BIGGS

Awarded Honorable Mention in Barron's contest

"If you can make a heap of all your winnings
And risk them on one turn of pitch and toss,
And lose, and start again at your beginnings"—

You may be a man according to Kipling's ideas, but you are also more or less of a fool and particularly if you are so situated that you cannot go back to your beginnings. Perhaps the one fundamental necessity for our theoretical widow is to have diversification of income-bearing securities. Mr. Schwab once said, "Put your eggs in one basket and watch it," but our widow, we presume, is in no position to watch her securities, and diversification along with security must combine to offset the limitations in human foresight which make it impossible to predict the future of any industry or corporation.

Our suggestions on the basis of August 1 prices call for the investment of $99,209.75, and yield an income at present dividend rates of $5538 annually. This income appears the maximum obtainable with the necessary safety under present market conditions and is increased through the investment of approximately $24,000 in common stocks.

The Merits of Common Stocks

Until recently it would not have been considered the part of conservatism to include common stocks in a list of investment suggestions for a widow. In the last few years, however, careful research and the decline in the purchasing power of money have united to point out to the reasoning investor how great are the merits of common stocks as permanent investments. Careful tests by Mr. Edgar Lawrence Smith have indicated that not only are common stocks superior to high-grade bonds in the matter of appreciation of principal but also in the continuity and regularity of income, and this has been proved to be the case not only in periods of declining money values but also when the reverse was true, or when the purchasing power of the dollar was increasing.

It is the duty of our widow's advisor to try to give her an income which will not only enable her to establish a certain standard of living but which will, as far as possible, enable her to maintain that standard even in periods of declining purchasing power. In other words, the effort should be directed to giving her an income with a stable purchasing power rather than an income of a fixed number of monetary units. In the words of the well-known economist, Professor Irving Fisher of Yale, "it behooves every investor who seeks safety and steadiness of yield to weigh well the fact that every investment, most of all bonds, involves a speculation in the value of the dollar, just as risky as other speculations and *that in the absence of any real safety his next best recourse may be a well arranged assortment of common stocks.*"

To omit a well selected list of common stocks, diversified by industries, from any list of investment suggestions like the one in question would be to disregard the experiences of recent years. Ultra-conservatives, who still believe that bonds are the long-term investment "par excellence," would do well to heed the lessons which depreciated European currencies and, to a less extent, the decline in the purchasing power of the dollar, have taught at such great expense to thousands dependent on fixed-income investments. The obvious merits of participating investments have been so well demonstrated that we have no hesitation in suggesting that approximately $24,000 of our fund be placed in common stocks.

Sharing in Prosperity

In choosing our stocks it has been the purpose to enable our widow to share the future growth and prosperity of the country, as far as possible, by making her a partner, through share ownership, in the great representative industries of the country. To this end we have endeavored to select stocks of corporations which were either dominant or representative of their line of endeavor and whose past record and progress indicated sound and far-sighted management. It has been necessary to be guided by two additional factors: first, the present market position of the securities and industries; and, second, the necessity of choosing stocks giving a reasonable income return. If we had been choosing stocks for an individual not dependent on the income, we might have included issues like Woolworth or Standard Oil of New Jersey, where the return is

practically nothing; but we have had to be guided by the limitations of the problem in question.

Creating an Insurance Reserve

While we are undoubtedly in a period of unusually high stock prices, and in spite of the fact that we have included stocks having yields as low as 4%, we have, nevertheless, obtained an average yield on our common stocks of about .6% more than on our bonds, or 5.96%. It would be our suggestion that the widow set aside this excess income now obtainable through purchase of common stocks and reinvest it annually in the stocks of the companies chosen. This fund would be a reserve and would tend still further to increase her income. Such a suggestion seems entirely reasonable and fair, in view of the fact that her only alternative to investing in stocks would be the selection of additional well secured bonds which would give her the lower yield. The $150 which she will thus annually invest may be considered an insurance fund to protect and increase gradually her income and principal.

An additional point in the favor of including common stocks in an investment list is the fact that only through the medium of this type of security can one participate in the success of the great business fields of banking and insurance. The history of the well managed companies is an indication of the great possibilities in these lines of endeavor, and stockholders of these companies have reaped rich rewards. While the income yield of the insurance and bank stocks suggested is only about 4%, past records indicate that this is frequently supplemented by rights which can be sold or exercised to increase the return.

It is essential that our Mrs. X, in case she should need cash immediately because of serious sickness or unforeseen emergency, should have a part of her fortune in such a form that she could draw on it at any time without having to sacrifice her principal, if the emergency should come in a period of low security prices. We, therefore, suggest an initial deposit of $2500 in each of two local savings banks.

High-Grade Investments

It is further our feeling that an additional amount should be placed in the highest-grade investment possible, and to this end we suggest the purchase of $5000 United States Treasury 4¼s, due 1947–1952. This should prove a profitable investment over a period of years because of the fact that the Treasury's policy of gradually retiring the Liberty Loans will have a tendency to make government bonds become constantly scarcer, unless new financing is undertaken, and the distant maturity of this issue should make it attractive and cause it to sell eventually at a considerable premium.

First mortgages on improved real estate are, without question, a high-grade type of investment, and particularly so when guaranteed by a strong mortgage company, as the guarantee tends to make the issuing company particularly conservative in its loaning policy. While this type of investment does not enjoy the ready market of some others, in view of the marketability of most of the investments suggested, this factor appears relatively unimportant, and we recommend the investment of $10,000 in guaranteed first

mortgage real estate bonds. We are suggesting certificates guaranteed by the Bond & Mortgage Guarantee Co., bearing 5% interest, and by the Lawyers Mortgage Co. and New York Title & Mortgage Co., bearing 5½% interest.

We further suggest the investment of approximately $39,000 in high-grade bonds, divided about as follows:

	Par Value
Railroad	$16,000
Public utility	14,000
Industrial	7,000
Foreign	3,000

Rail and Utility Bonds Favored

The majority of the bonds chosen are railroad and public utility issues because the variable factor of management, due to the lack of competition, appears to play a less important part in the prosperity of these companies than in the success of industrials.

The railroad bonds chosen are, with the exception of the Southern Railway development and general 4s, all secured by first mortgages on either very important parts of the road in question, or on a very large mileage, and while they are not the obligations of roads which have in the past enjoyed the highest credit, they are so well protected from the property point of view that their position seems well assured. The attempt has further been made to obtain geographical diversification in both the railroad and public utility companies chosen. The roads are all companies with apparently bright futures and the bonds have been suggested with the feeling that as the credit of the roads improved, the position of the issues would profit, both from a market and an investment point of view. The South-

ern Railway bond, while the obligation of a road whose credit is high grade, is not an underlying issue. The road is making such rapid strides, however, and its earnings are so satisfactory, that the position of its junior bonds should show steady improvement.

The public utility and industrial issues are practically all first mortgages on the entire property of the companies in question, and the earnings in all cases are very satisfactory while the income return is surprisingly good.

The one foreign issue is the obligation of a country —Norway—with a splendid financial record and high credit standing. The investment gives further diversification, a good income, and puts the holder in a position to benefit from any improvement in the position of foreign bonds in our market, which it seems should take place under more settled international conditions, and through a more adequate appreciation of the merits of foreign investments, which our position of constantly increasing importance in international finance should encourage.

Preferred Stock Selections

Preferred stocks have been selected as the medium for approximately $16,000 of our investment fund. The effort has been made to obtain a maximum amount of safety consistent with a fair return. No stocks have been chosen yielding less than 6%, because it is felt that preferred stocks are not attractive from a security point of view in comparison with bonds and that bonds having higher investment qualities can be obtained yielding between 5% and 6%.

Four of the preferred stocks chosen would doubtless

not be questioned as high-grade investments. They are the Associated Dry Goods 6% preferred, the Consumers Power Co. 6.6% preferred, the American Steel Foundries Co. 7% preferred, and Chesapeake & Ohio convertible 6½% preferred. The last-named stock appears especially attractive, not only because of its high investment qualities but because of the fact that it is convertible share for share into the common and is not callable until 1932. The conversion feature may well prove very valuable in the future. We suggest, of course, that the stock be retained and not deposited under the Nickel Plate consolidation plan.

Famous Players-Lasky 8% preferred is also convertible into the common at 120, and this is one of our reasons for suggesting the issue. We feel further that the issue is much underestimated. In no year in the last five has the dividend been earned less than five times, while it was earned practically four times in 1919, and in the depression years of 1921 and 1922 the company earned the dividend seven and six times respectively. The company is under sound management and in an enviable position through its ownership of a large chain of theatres. The motion-picture industry appears to have passed out of the development era and we look for gradual market appreciation in this stock as its investment and convertible features become better known and more fully appreciated.

The position of Tobacco Products Class "A" stock is so strong that we have no hesitation in including it among our preferred issues. $5.50 of its $7.00 dividend is received from the lease of the company's manufacturing properties to the American Tobacco Company, this charge being, of course, ahead of all

dividend requirements of American Tobacco. Tobacco Products' control of 90% of United Cigar Stores, besides its other holdings, makes this dividend well protected and only underestimation of the stock's qualities can account for the fact that it sells practically on a 7% basis, while American Tobacco preferred sells to yield only 5.61%.

Caring for Taxes

Because of the general nature of the problem, we have not considered the effect of local taxes in choosing our securities, and while such considerations as state inheritance taxes might affect the selection of certain securities, they have little relation to the general question at issue. In the case of a widow who is, presumably, not in a position to keep closely in touch with the details of her investments, and who may perhaps not be sufficiently experienced to arrange her affairs so that the fact that her income may be $700 one month and only $200 another will not disturb her, we suggest that she might do well to establish a safekeeping account at her bank. She could make arrangements in this way to have her income paid in equal monthly installments and details such as clipping coupons attended to at a very low cost, considering the convenience involved. The charge would be somewhere between $100 and $200 annually and she would probably save that amount through having her coupons clipped and dividend checks deposited at once. On the basis of closing prices for the week of August 1, our suggestions call for the expenditure of only $99,210, leaving a balance of nearly $800 to cover investment

expenses or the expenses attendant on establishing a safekeeping account. Any surplus can be added to her savings bank account.

The list of investments follows (prices as of Aug. 1, 1925):

Par Value		*Income*	*Principal*
$5,000	Savings Banks (two banks local)	$200.00	$5,000.00
5,000	U. S. Treasury 4¼s of 1947–1952	212.50	5,306.00
4,000	Bond & Mortgage Guaranty Co. guar. 5% ctfs.	200.00	4,000.00
3,000	N. Y. Title & Mortgage Co. guar. 5½% ctfs.	165.00	3,000.00
3,000	Lawyers Mortgage Co. guar. 5½% ctfs.	165.00	3,000.00
		$942.50	$20,306.00

BONDS

		Price		
$4,000	Federal Lt. & Trac. 1st 6s, 1942	102	$240.00	$4,080.00
3,000	Pacific Gas & Elec. gen. & refg. 5s, 1942	96	150.00	2,880.00
4,000	Union Elec. Lt. & Pow. 1st 5½s, 1954	101	220.00	4,040.00
3,000	West Penn. Power Co. 1st Ser. "A" 5s	99½	150.00	2,985.00
3,000	American Smelt. & Ref. 1st 5s, 1947	98	150.00	2,940.00
4,000	Ward Baking Corp. 1st 6s, 1937	103	240.00	4,120.00
4,000	Erie & Jersey 1st 6s, 1955	103	240.00	4,120.00
4,000	Mo. Pac. 1st & refg. 6s of 1949, Ser. "D"	100½	240.00	4,020.00
4,000	Pere Marquette 1st 5s of 1956	97½	200.00	3,900.00
4,000	Southern Railway dev. & gen. 4s, 1956	77¾	160.00	3,110.00
3,000	Kingdom of Norway ext. 5½s, due 1943	95	165.00	2,850.00
			$2,155.00	$39,045.00

PREFERRED STOCKS

Shares		*Price*	*Income*	*Principal*
25	Associated Dry Goods 6% 1st cum.	98¾	$150.00	$2,468.75
25	Chesapeake & Ohio 6½% cum. conv.	109	162.50	2,725.00
25	Consumers Power Co. 6.6% cum.	102	165.00	2,550.00
25	Famous Players-Lasky cum. conv. 8%	118	200.00	2,950.00
25	Tobacco Products Corp. Class "A" 7%	102	175.00	2,550.00
25	American Steel Foundries 7% cum.	111	175.00	2,775.00
			$1,027.50	$16,018.75

COMMON STOCKS

15	American Tel. & Tel.	140	$135.00	$2,100.00
20	Atchison, Topeka & Santa Fe	120	140.00	2,400.00
20	N. Y. Central	117	140.00	2,340.00
20	U. S. Steel Corp.	118½	140.00	2,370.00
20	American Tobacco Co. Class "B"	97½	140.00	1,950.00
20	Consolidated Gas Co. of N. Y.	89	100.00	1,780.00
20	Westinghouse Elec. Mfg. Co.	72½	80.00	1,450.00
20	General Motors Corp.	89	120.00	1,780.00
20	Borden Co.	82	80.00	1,620.00
20	Union Carbide & Carbon.	67	100.00	1,340.00
10	Texas Co.	51	30.00	510.00
20	Childs Co.	55	(a)88.00	1,100.00
20	Insurance Co. of North America	55	40.00	1,100.00
4	Bankers Trust Co.	500	80.00	2,000.00
			$1,413.00	$23,840.00

(a) Stock dividend included @ $50.00

SUMMARY

	Income	*Principal*
Savings banks	$200.00	$5,000.00
Total bonds	2,897.50	54,351.00
Total preferred stocks	1,027.50	16,018.75
Total common stocks	1,413.00	23,840.00
Grand total	$5,538.00	$99,209.75

Average total yield is approximately	5.53%
" common stock yield is approximately	5.96
" preferred stock yield is approximately	6.42
" bond yield is approximately	5.32

VIII

INVESTING FOR A WIDOW

By RUSSELL LEAVITT

Awarded Honorable Mention in Barron's contest

In the course of daily existence, anyone who is interested in investments meets a great many different suggestions.

"Never buy anything but a first mortgage bond."

"Common stocks are the best long-term investments."

These are merely two samples out of a hundred or more, but they show clearly how some of these rules directly contradict others. Yet there is some measure of truth in each. What rules or what suggestions, then, is the uninitiated investor to follow?

First, let us see what our rules must accomplish.

Now, it is self-evident that a widow with two dependent children, who has at her disposal such a moderate sum as $100,000, must be certain of two things. She must first be sure that her principal and income are secure; and then she must be certain that her principal will produce as much income as can be gotten with safety. She cannot afford to lose, for this sum is all she has; but neither can she afford to have any inefficiency among her securities, for she can put to good use every bit that she can get out of this fund.

The Question of Safety

It is interesting here to point out that neither of the two rules quoted above would, if applied alone, solve the problem just stated. The first mortgage bonds might not give sufficient income and the stocks might involve too great a risk. It follows that the rules which we must use must try to embody all the good points and to exclude all the bad ones. They must attempt to combine many rules such as the two already mentioned.

The very first principle that must be adhered to is as important as it is obvious. To state it may seem trite, but we cannot get away from it and we cannot overlook it. It is that every individual investment should be adjudged safe as to principal and interest. How to determine the security of each investment is beyond the province of this discussion. We must rely upon the judgment of bankers or other recognized investment authorities for this.

But there are degrees of security, and it has already been pointed out that the most conservative bonds may not give a satisfactory yield in this particular case. If we cannot take the very highest grade of security, we must add to the safety factor by other means.

There is only one way to accomplish this, viz., ample and complete diversification. This one point should be given as much emphasis as that of making sure that every individual investment is safe. Only by means of thorough diversification can the investor in this case safely buy securities of less than first

grade, and only in securities that are not of the highest calibre can an efficient income be obtained.

Diversified Investments

Now the word "diversification" means a great deal. It means a proper distribution of funds among

(*a*) Individual issues, *i.e.*, risks.
(*b*) Types of corporation or debtor.
(*c*) Stocks and bonds.
(*d*) Various parts of the country and the world.
(*e*) Even among long and short-term bonds.

It might even mean distribution as to interest and dividend dates, but this would be carrying matters to unnecessary extremes. Let us assume that our good lady is at least capable of spending her money properly, regardless of how she receives it during the year.

And now other questions arise. What constitutes proper diversification in all these various directions? In solving these problems, we shall arrive at the very heart of the whole matter. Let us, therefore, take them up in some detail.

(*a*) Distribution among individual risks should mean, in this case, an approximate limit of 5% of the total, or $5000, in any one stock or bond, company or government (with the exception of United States government bonds). This will effectively forestall the probability of more than a small proportion of the total being adversely affected at any one time, through any original mistake in judgment. Yet, it will also avoid too long or bothersome a list.

(*b*) Diversification among types of corporation or

debtors should mean a carefully conceived plan of allotting and limiting the proportions invested in each class. Following is such a scheme:

Type of Investment	*% of total*
U. S. government bonds	10
Railroad securities	25
Public utility securities	25
Foreign government securities	20
Industrial securities	15
Bank stocks	5

United States government securities do not yield enough to be attractive in this case, but 10% of the total is placed here as a concession to strict conservatism.

Railroad and public utility securities are given the place of honor, each 25%, because, among corporation issues, they represent by far the best combination of lasting values, stability and general desirability. This is conceded on all sides.

Foreign government issues, 20%, are less stable than bonds in any other except the industrial group. Yet, they offer an excellent yield. In the course of time they are sure to become more popular and more stable. Hence, one-fifth of the total is invested here.

Industrial securities are permitted in somewhat smaller proportion, 15%, because of their comparative instability or fickleness. Yet, they yield a good-sized income and certain industrial stocks surely offer excellent opportunities for permanent investment.

Bank stocks might be included in larger ratio than the stated 5% were it not for the fact that the yield is generally so low. However, most bank stocks show a steady gain in market value over a period of years—a feature well worth including in any well

constructed list, if only for the purpose of a sort of insurance against chance depreciation of principal in other securities.

(*c*) Diversification among stocks and bonds in the case at hand should mean a division such as:

Bonds	70%
Common stocks	30%

The Merits of Common Stocks

It is conceded that there is a strong argument for common stocks as long-term investments, but too much depends upon the judgment exercised in the original selection to permit very much freedom in this direction. Moreover, even if the general trend of prices among good stocks is upward, it must be borne in mind that the best of common shares are likely to pay smaller dividends in hard times and this is something that cannot be permitted in this particular case. Probably also the trend in the price of capital is now definitely downward (as it was after other great wars) and thus, in all likelihood, there will be no such depreciation in bond prices as that which over the past twenty years caused such a decline in bond values. Considering this and the fact that bonds are obviously surer of paying regular interest, they are chosen to form the bulk of the investment. Yet, a quarter of the total is placed in stocks so as to take advantage of the good points which lie in that type of investment.

(*d*) Diversification in various parts of the country and the world should merely mean avoiding the investment of any large proportion in any one state or city, or foreign government. There can be no absolute rule

here and common sense can be relied upon to direct the scattering of risks geographically.

Bonds of Short and Long Terms

(*e*) Diversification as to long and short-term bonds ought to mean the inclusion of a fair proportion (say 25% to 30%) of early maturities among what should be, for the most part, long-term investments. The purpose of this would primarily be to avoid depreciation of principal in a falling bond market in at least part of the fund, for it is a good rule that "the closer the maturity date, the greater the stability—providing other things are equal." However, such a plan also has other advantages in that at intervals it allows the investor an opportunity to change the direction in which the funds are invested, in case fundamental conditions change in a way that cannot now be foreseen.

Now, there are one or two other policies that should also be followed, before we proceed to the actual setting up of our list.

Marketability—Disclosing Earnings

One principle that is well worth taking into consideration is that of attempting to secure a good degree of marketability in each case. Presumably, our lady will wish to keep her original investment intact as far as possible. However, if ever she does have to make changes, or if she ever encounters an emergency where the use of her securities as collateral against a loan is a necessity, then the advantages of a high degree of marketability in each case become fully evident.

It is also an excellent rule, as far as possible, to buy only into those situations where it is known that full and frequent information will be available. We must not expect of any widow that she will want to spend her time watching the earnings and financial statements as they appear. This is not the purpose of this rule. Rather, it is included so that if ever any question does arise upon any one of her holdings, she will have no difficulty in getting intelligent information as to the action she should take.

Without any further effort in erecting restrictions and limitations upon the manner of investment, let us proceed at once to the establishment of an adequate list. Not even a careful application of the sound policies discussed above will lead to the construction of any one particular list. It is precisely at this point that the judgment of one familiar with investments must be invoked. This is necessary in any plan whatever.

The List of Investments

Following is shown a table, based on Aug. 1, 1925, prices. In it are listed specifically the securities which will fit the case in question. There is also shown the cost and the annual income both for the individual investments and in the aggregate.

Conclusion

When the results of such a program are brought together and compared with the principles set forth in the first part of this article, it will be found that, in the first place, each individual investment represents

Issue	*Par amount*	*Approximate cost*	*Annual income*
U. S. Liberty 4¼s, 1933–38	$10,000	$10,200.00	$425
Chicago & West Ind. 5½s, 1962	5,000	4,900.00	275
New York Central common	50 shares	5,900.00	350
Ore. Wash. R.R. & Nav. 4s, 1961	$5,000	4,081.25	200
St. Louis-San Fran. adj. 6s, 1955	5,000	4,600.00	300
Western Pacific 4s, 1930	5,000	4,650.00	200
American Gas & Elec. 6s, 2014	5,000	4,887.50	300
Manila Electric 7s, 1942	5,000	5,037.50	350
Pacific Gas & Elec. common	50 shares	5,800.00	400
Public Service of N.J. common	50 shares	4,350.00	250
Virginia Rwy. & Pow. 5s, 1934	$5,000	4,825.00	250
Denmark Mortgage Bk. 6s, 1970	5,000	4,775.00	300
French 8s, 1945	5,000	5,156.25	400
Industrial Bank of Japan 6s, 1927	5,000	4,975.00	300
Trondhjem (City of) Norway 6½s, 1942	5,000	5,025.00	325
American Agri. Chem. 7½s, 1941	5,000	5,175.00	375
U. S. Steel common	50 shares	6,012.50	350
Westinghouse Elec. & Mfg. com.	60 shares	4,350.00	240
Bankers Trust Co. of New York	10 shares	5,000.00	200
Total		$99,700.00	$5,790

The yield on the entire investment is 5.80%.

something safe and sound so far as it is possible to see ahead. That these individual investments are not all of the highest grade is one of the admitted purposes of the program.

It will be found, however, that as originally planned, this is fully offset by careful diversification. In the list of securities shown above it will be found that the funds are scattered among nineteen distinct and separate risks; that there is no more than 20% of the total in any one type of industry or debtor; that about 70% of the whole is made up of bonds and about 30%

of good stocks; that there is no geographical concentration of risk; and that a fair proportion of the total has been placed among short-term securities which should be stable. Thus, the second purpose of the plan has been accomplished and any danger which is inherent in more than a normal yield is offset by thorough diversification.

Finally, it will be noted that all of the above securities are readily marketable and that they represent situations which can be followed with facility.

The current yield in this group of securities is about 5.80%. If the "yield to maturity" could be figured on the total, it would be greater than this because most of the bonds are selling at a discount. The French 8s, apparently selling at a premium are, in reality, selling at a discount since they will all be paid off at 110.

The annual income of $5790 involves no risk and is amply sufficient for all necessities. It is no part of the purpose of this plan to provide for luxuries and if the necessities are provided for with certainty, that is all that is required.

IX

INVESTING FOR A WIDOW

By A. VERE SHAW

Like many another traditional belief the real reason for which is long since forgotten, if indeed it ever existed, there still thrives one to the effect that the conservative investor should buy only permanent investments, "the kind that can be locked up in the strong box and forgotten." As if safety were thus assured! The same idea is expressed in the recent advertisement of a well-known bond house which reads, "If a woman is solely dependent upon the income from her invested funds, she cannot afford to take any chances." Bosh! She must take chances! No unit of property exists which cannot and may not be lost or destroyed! A vacant prairie lot will not burn or be stolen; but it may become subject to a right of way. The bond of a certain government, less than a dozen years ago considered one of the strongest in the world, is today practically worthless. Risk invariably accompanies ownership. Absolute safety is unattainable.

The Investor's Objective: "Safety"

At the outset it is necessary to determine our investor's objective. Let us suppose that the particular young woman of our problem has been accustomed to spending $10,000 a year for herself and her two children. She realizes that now her yearly income is to be cut

approximately in two. Consequently she has planned to adjust her daily life and the lives of her two children to a more modest scale, to live within her means whatever they may be. *But she wants no failure in the source which produces the means.* Her first objective is to maintain her capital fund intact. This assured, she desires to secure the largest income that may reasonably be expected. In short, she desires insurance of her capital and its yield, not absolute safety but maximum safety.

In the year 1913 a certain man invested all his capital, $100,000, in high-grade long-term bonds. His income was approximately $5000, just as this young woman's will be. Seven years later, in 1920, his income was still $5000 and the face value of his capital still $100,000. But in his purchasing power, what a vast difference! When he tried to spread his income over his living he found that things cost more than double what they did in 1913. His 1920 dollars were hardly so good as his 1913 half-dollars. Increased commodity prices—depreciation of the currency—had cheated him out of half his purchasing power just as if he had lost so many dollars. Consequently he had to revise his scale of living drastically downward. Is this the maintenance of principal, the stability of income, the "safety" our young woman desires? Is an income of $5000 a fixed income when this year a dollar buys a whole bag of flour and next year only half a bag? This may be traditional safety, but certainly it is not the safety this young woman contemplates nor the kind she may reasonably hope to attain. But how is real safety, maintenance of the purchasing power of a fund and of its income, to be secured?

Investment Mediums

Capital is productive only when put to work, and the investor can put his capital to work in just two ways. He can lend it at fixed rental to others to buy property or labor which they will manage in their own interests; or he can buy property, hire labor and himself do the managing for his own profit (or loss). The lender of capital—the owner of bonds, notes, mortgages, etc.—relieves himself of all trouble of management except in the few cases where a default occurs. He usually holds a pledge of specific property for payment of the debt. The purchasing power, however, of his fixed dollar-income, as we have seen, is not fixed but is greater or less according to whether the dollar buys more or less.

The investor usually participates in business enterprises today by acquiring a part interest in corporations through the purchase of shares—common stocks. As an owner of stocks his income consists of business profits. The purchasing power of an income from this source, though greater than from money lent, may vary more, however, because not only does the buying power of each dollar vary but the number of dollars of income received also varies according to whether business is good or bad. Neither lending his capital, therefore, by owning bonds, nor participating in business by owning stocks, assures the investor a truly fixed income. Perhaps a more careful examination of the economic conditions affecting these two mediums of investment will afford us a clue.

Investment Conditions

Business is seasonable. It has its summer, its autumn, its winter, and its spring. The business seasons always rotate in the order named and vary in length and intensity just as do their prototypes in nature. During the prosperous summer of business, merchants and manufacturers are busy, competition slackens, prices and wages increase, profits grow. This lowers the purchasing power of each dollar of income and consequently of any fixed number of dollars. At such times the bondholder, the creditor, the salaried man, may find himself in distress. The stockholder, however, and the business man find that they have enough larger dividends during this season to more than offset the decreased purchasing power of each dollar. Likewise they find the value of their property appreciating. When winter comes, however, with its slump and depression, and business is wary and hard to find, merchants, manufacturers, and laborers meet stiff competition, costs and selling prices begin to fall, and the dollar begins to acquire some of its old-time vigor. Then the person with fixed dollar-income finds his backlog of bonds very comfortable indeed. But the stockholder, although the dollar he receives will buy more than it did, may find some of his dividends reduced and possibly some passed.

An Effective Combination

Now does not the analogy of the coal and ice business simply force itself upon us? Here are two types of securities, each disclosing a strength which at exactly

the right season bolsters up a weakness in the other. Could any arrangement be happier? Do not think that bonds go up in price when stocks go down. Investors are not interested in price fluctuations. It is the purchasing power of an income from bonds which expands when the purchasing power of an income from stocks contracts. Stocks represent the growth and development of industry, the prosperity of the country. Bonds bridge the depressions of industry, temper its hardships. Stocks vitalize, bonds stabilize an investment fund. Both are essential to safety.

Equity Shares and Corporate Management

Do I hear a whisper that "common stocks are unsafe and not fit for investment purposes"? The temptation to assist at the obsequies of this, another worn-out investment tradition, cannot be resisted. In early times the direct ownership of productive property had numerous disadvantages. To go into business a man had himself to own a factory, a ship, a store; to buy, sell or fabricate. The risks were enormous. There was no expeditious and reliable transportation system; no means of instantaneous communication; no universal police protection; no automatic machinery; no sound credit system; no fire insurance, theft insurance, management and every other kind of insurance; no world-wide markets; nor even the corporate form of today. The number of businesses one man could manage or have a hand in was decidedly limited. Today, however, with most of the old risks eliminated, a person can own a share in a business enterprise, in a hundred different business enterprises, leave all

management problems to hands far more capable than his own, and receive his income with even less trouble than the coupon cutter must go to. And management always works for the stockholder. Why is a Liberty bond one of the safest securities in the world? It is a lien on all the industries of our country, —good, bad and indifferent. Certainly a lien on the good industries alone should be safer. This is the principle adopted by the investor who owns a carefully diversified list of shares in the leading companies of the sound essential industries of this country. For a comprehensive discussion of this subject, the reader should consult the recent series of articles published in *Barron's* under the title* "Investing in Purchasing Power," by Kenneth S. Van Strum, also Edgar Lawrence Smith's book "Common Stocks as Long Term Investments," and an article "Elements of Investment Safety" in the recent *Harvard Business Review.*

One investment medium not before mentioned is the preferred stock. This type, neither a common stock nor a bond but a compromise between them, usually partakes to a greater degree of their disadvantages than of their advantages. With the common stock it too often shares the losses of adversity yet never the extra profits of prosperity. It has the limited income of a bond without the effective grip upon management possessed by holders of pledged collateral. No approaching maturity ever steadies its value in the face of increasing money rates. There are a few excellent preferred stocks. But since, as a whole, the class is a poor risk, let us leave to the expert investor the search for individual exceptions.

*Now available in book form under same title.

What Proportion Bonds and Stocks?

One bond out of every 100 may deteriorate, but the ninety and nine cannot make up the loss. Five stocks out of 100 may deteriorate, but the ninety-five can more than make up the loss. With the aid of compound interest a stock yielding on its cost 1½% more than a bond will return enough extra in just thirty years to entirely replace its cost. If stocks on this basis never paid extras, never appreciated,—if one out of thirty were wiped out completely each year, still stocks would make as good a final showing as bonds. In spite of business depressions, every period of prosperity leaves the country better off than it was the period before. Even during depressions there is a margin between the cost of money and the profits of enterprise sufficient to permit well managed companies to earn money. Our country has grown and increased in prosperity from its beginning. Undoubtedly it will continue to do so for years to come. To share in the industrial growth and welfare of his country it is essential, therefore, that the interest of the conservative investor in common stocks be substantial.

Since investment is not an exact science, judgment must play its part therein. At the present high level of stock prices, were I handling this young widow's fund, I would put only one-third or possibly 40% of it into common stocks and the remainder into long and short-term bonds, the short-term bonds to be traded for stocks at a lower level. But as she herself (I am supposing) is to handle the fund after it is set up, it is my judgment regardless of present high prices that the fund had best be divided approximately 50%

common stocks and 50% bonds, the latter comprising both long and short maturities, because interest rates are comparatively low and an opportunity to buy long-term bonds on a better basis will be presented later. These proportions should be adhered to, unless an expert adviser is consulted. Inevitable fluctuations in prices will occur. They should not be heeded, however, for five years from now present prices will be considered low.

Principles of Selection

No individual stock or bond is an investment. Rather it is an investment risk (unless it be a speculative or gambling risk), and investing is the business of assuming such risks. Credit for achieving maximum safety in a business of assuming risks undoubtedly belongs to the institution of insurance, and the investor, whose chief objective maximum safety is, can certainly do no better than apply many of the principles followed by all successful underwriters. Definitions of investment and speculation abound, but none appears to be based upon a clear conception. It is the application of sound underwriting principles to the ownership of capital risks which differentiates the business of investing from that of speculation and from gambling.

Insurance inspects every risk offered; accepts only good risks; examines accepted risks regularly, eliminating poor ones; and takes only *small* stakes in *many* risks *widely distributed* geographically, industrially, etc. Indeed, the lazy investor could do far worse than make his selection of securities from the holdings of some of our large insurance companies which

maintain departments of experts to watch their investment risks just as they maintain staffs of physicians and inspectors to examine insurance risks.

Decalogue for Amateur Investors

(1) Own only bonds and stocks of leading companies in sound and essential industries.

(2) Except for bank and insurance stocks, own only stocks listed on one of the major Exchanges.

(3) Own only stocks which can boast an unbroken earning as well as dividend record of at least ten years.

Note: If these three rules be followed, the investor will own seasoned stocks which are being carefully watched by bankers and expert investors throughout the country.

(4) Own stocks in at least five different industries.

(5) Own stocks in fairly equal amounts in at least fifteen different companies.

(6) Own a few low-yield stocks as a means of building up capital and future income.

(7) As a rule, buy bonds under par to obviate the possibility of spending capital.

(8) Subscribe to one high-grade financial weekly and ask the editor for specific advice now and then.

(9) Do not be disturbed by losses on individual risks, but keep an eye out for a gain or a loss on the aggregate.

(10) Once a year sell at least one stock, choosing the weakest on the list and having no consideration whatever for its original cost. Replace it by another good risk.

Note: This will necessitate at least one careful inspection annually and will tend to keep the list clean.

List of Recommendations

The following securities are chosen substantially in compliance with the foregoing principles, and every one, I believe, is now held by one or more of the leading American insurance companies:

Bonds

No.		*Price Aug. 11*	*Principal*	*Div. or Yld. to Mat.*	*An. Inc.*
5	Col. Gas & Elec. 5s, 1928	100	$5,000	5.00%	$250
5	Edison El. Ill. (Boston) 4½s, 1928	99	4,950	4.70	225
4	C. C. C. & St. L. 6s, 1929	103	4,120	5.15	240
4	Ches. & Ohio 4½s, 1930	98	3,920	4.90	180
4	Mtge. Bond Co. 5s, 1932	96	3,840	5.70	200
4	Sou. Utilities 6s, 1933	103	4,120	5.55	240
4	Appalachian Pr. (non-call.) 7s, 1936	107	4,280	6.10	280
4	Gt. Northern (non-call.) 7s, 1936	110	4,400	5.75	280
4	Kans. Cy., Ft. Scott & Mem. 4s, 1936	85	3,400	5.85	160
4	Armour & Co. R. E. 4½s, 1939	89	3,560	5.65	180
4	St. L. & San Fran. P. L. 5s, 1950	89	3,560	5.85	200
4	Laclede Gas Lt. 5½s, 1953	99	3,960	5.50	220
	Total bonds		$49,110		$2,655

Common Stocks

Shares		*Price Aug. 11*	*Principal*	*Div. or Yld. to Mat.*	*An. Inc.*
25	N. Y. Central	119	$2,975	$7	$175
25	Atchison	121	3,025	7	175
35	Cons. Gas of New York	89	3,115	5	175
25	Commonwealth Edison	137	3,425	8	200
20	Amer. Tel. & Tel.	140	2,800	9	180
50	Union Carb. & Carbon	68	3,400	5	250
10	General Electric	315	3,150	(a)8	(a)80
25	Westing. Air Brake	119	2,975	6	150
25	U. S. Steel	121	3,025	(b)5	(b)125
60	Standard Oil of New Jersey	40	2,400	1	60
15	United Fruit	221	3,315	10	150

COMMON STOCKS–*Continued*

Shares		*Price Aug 11*	*Principal*	*Div. or Yld. to Mat.*	*An. Inc.*
20	DuPont	141	$2,820	$8	$160
35	Allied Chemical	96	3,360	4	140
30	American Tobacco "B"	97	2,910	7	210
15	Sears, Roebuck	191	2,865	6	90
5	Phœnix Insurance	560	2,800	20	100
5	National City Bank	493	2,465	16	80
	Total stocks		$50,825		(a)$2,500

(a) Plus 5% in stock. (b) Plus extras.

Cash remaining	$65	
Totals	$100,000	$5,155

X

INVESTING FOR A WIDOW

By IRA D. HYSKELL, PH.D.

THE problem of investing $100,000 for a widow is not solved satisfactorily by placing the money in strictly high-grade bonds averaging about 5%. Such a policy would involve acceptance of a fairly low rate of interest, it would not wholly eliminate risk, and there would be no precaution taken to offset decreased purchasing power of the income received through a possible depreciation of money in terms of commodities.

Of these disadvantages inherent in investment in strictly high-grade bonds the fact that the interest return is low and at the same time some degree of risk remains is a serious objection. To be content with a moderately low interest return is quite endurable, and to many investors entirely to be expected under the circumstances, but to be faced with the possibility of losses of principal or of curtailment of interest received in order to make up such losses is a condition to be endured only if necessary. Unfortunately the risk in strictly high-grade bonds is greater than commonly supposed. Such securities sell on a basis to indicate that losses of interest or principal over a long period of years is practically negligible; and yet the record of railroad receiverships indicates that there is a degree of risk in very high-grade corporate bonds not to be disregarded.

The Question of Risk

Not only is risk underestimated in the case of highest-grade securities but it is overestimated in medium-grade bonds and high-grade stocks. The same discrepancy exists as between preferred and common stocks. The very name "preferred" imparts a feeling of security. This failure on the part of purchasers of investment securities to estimate risk with exactness is to a great extent due to confidence in what is old and well established. It is not taken into account that men of great ability tend to leave old and well established lines of activity, where the rewards of effort are mostly limited, and to undertake new enterprises less limited in scope and possibility of profit. Thus the old lines of activity, either because managed by men of mediocre ability or circumscribed and hampered by outside agencies, now and then report unsatisfactory earning power, whereas the newer enterprises in many cases produce astonishing earnings. There are fields, for example the electric utility, where an owner of a diversified list of holdings, even common stocks, would have had only a remote chance over the last decade or two of losing any money; there are other fields, for example the street railway, where it would have been almost impossible not to have lost money.

The exact degree of risk may be intentionally disregarded by investors. A return of approximately $4\frac{1}{2}\%$ may be secured from bonds having practically no risk; a higher rate of interest usually means that a payment is being made, included in the interest, to offset a possible loss of principal. This theory would

indicate that over a long period of years losses would reduce the interest received to approximately 4½%. If this were true, investors undoubtedly would not submit themselves to uncertainties and worries in holding other than highest-grade securities. In practical experience losses normally do not bring the interest return down to around 4½%, and therefore it is rightly regarded as profitable to hold other than highest-grade securities. An instance recently came to the author's attention. An investor had complained over a comparatively small paper loss, and, as a consequence, his entire record with a certain investment house was investigated. Over an eight or ten-year period he had received approximately $90,000 in interest and dividends. Assuming sale at fair market prices of all securities not already sold, it was found that he had a net loss of principal of $1000. Thus his income return was reduced one-ninetieth, or by enough to bring down the 6% rate which he probably averaged to 5.93%. This may be an extreme, though actual, case, since this man was not a buyer of common stocks, and had very limited means of making up any loss incurred.

Purchasing Power of Income

The investment of an individual's funds should include provision to offset, if possible, any loss of purchasing power of the income received through depreciation of money in terms of commodities. There is no place here to discuss whether money will have greater or less purchasing power a decade or two hence. It is believed by many, however, that the possibility of inflation is real. For thousands of years

money has been losing its value. Mostly the movement has been extremely slow; sometimes there has been a swift uprush and a subsequent decline; at other times prices have gone up and never returned even near to previous levels. At the present time a great effort is being made in many quarters to expand credit operations. Because of this or other reasons the possibility of inflation appears real enough to justify consideration of this factor in making up an investment list.

This means that common stocks should be included, so that their increasing value might form the compensating medium required. The principle is well understood, but has been generally disregarded by those regarding themselves as true investors. Whenever money decreases in purchasing power, prior obligations become proportionately less onerous, and common or capital stocks have greater value. Furthermore, property and inventory values become greater in relation to the capitalization outstanding at the time of the upward movement of commodity prices.

Investing for Profit

If the placing of a part of an individual's investment funds in common or capital stocks involved a substantial increase in the risk involved, it might be well to forego the expected advantages of this policy. There is reason to believe, however, that a carefully selected and well diversified list of stocks will over a period of years show a net gain in principal rather than a loss, and will meanwhile pay substantial dividends. Able men do not strive to build up corporate enter-

prises for pleasure, however much satisfaction they may find in achievement, but for profit,—or certainly the measure of the achievement is in terms of profit. If they themselves own much of the stock, they expect enhancement in value; if the stock is owned largely by the public, the enterprise to be successful must make liberal amounts of money in order to attract new capital.

The selection of securities, whether bonds or stocks, for a more or less permanent investment of the character here contemplated should be in conformity with careful standards of intrinsic values. In estimating the comparative attractiveness of different security issues or of different fields of endeavor it is no less important to look to the future than to the past. Property values and earning records have undoubted value, but it must always be kept in mind that the securities selected will receive their test of fitness in the future, when present or future trends of a favorable or unfavorable character will have a determining influence.

What the Discriminating Investor Looks For

The securities of no company or in no line of endeavor should be selected unless where able management, sound property values and a good earnings record are found. Management or control, however able, should not be concentrated in the hands of one man or a single family. Property values should not be disregarded, even though earnings have been excellent. But there are other qualifications equally to be insisted upon. There should be no cut-throat competition or over-extension of producing capacity, such as might point

to severe competition or readjustments in the future. The enterprise should perform an essential function, preferably of growing importance, in modern life; if regulated by political agencies, there should be probability of fair treatment, or certainly of fair adjudication of such treatment by the courts, such as has generally prevailed in the electric and gas utilities and seems fairly definitely now to be prevailing in the railroad field.

A rigid adherence to these and other qualifications means that many lines of endeavor should be passed over. Automobile, rubber, leather, shipping, street and interurban railway, New England and northwestern railways, copper, soft-coal, and tobacco stocks fail at the present time to meet the conditions laid down for an investment of the character here contemplated. Even the best of the oils are held in doubt because of their great capitalization and the future readjustments that may be involved, not to mention that productive capacity over the past few years has exceeded requirements.

Conclusion

This list has been selected with the full expectation that under the influence of no combination of adverse factors will the annual income ever fall below the return of a like amount of strictly high-grade bonds, namely about $5000. Moreover, the chances are regarded as very good that safety will increase as time goes on, making the income more sure and probably greater than at present, and resulting in a substantial increase in principal. Should anything adverse affect one issue, it is expected that appreciation in others will

much more than offset the loss. In case of pronounced inflation the increasing equity of the common stocks should tend to keep the purchasing power of the income at present levels. This list is not meant to be watched, but to be placed with confidence in a strong box as if each issue were of the highest grade. Disregarding times of severe declines of a temporary nature in the general market, these securities, it is believed, will at any future date be worth their present price.

The list as selected follows. Prices are those of last sales. The commissions involved in making purchases are deemed to be offset by accrued dividends included in the prices.

RAILS

Shares		*Cost*	*Income return*
20	Union Pacific common (10%)	$2,848	$200
20	Atch., Topeka & Santa Fe com. (7%)	2,428	140
20	Illinois Central common (7%)	2,300	140
20	New York Central (7%)	2,385	140
20	N. Y., Chicago & St. L. 6% pf "A"	1,900	120
40	Kansas City Southern Ry. 4% pf	2,360	160
Amount			
$2,000	Missouri Pacific 1st & ref. 6s, 1949	2,010	120
2,000	Southern R'y dev. & gen. 6½s, 1956	2,175	130
2,000	St. Louis-San Francisco p. l. 4s, '50	1,508	80
	Total for railway securities	$19,914	$1,230

UTILITIES

Shares			
20	Amer. Tel. & Tel. Co. (9%)	$2,788	$180
20	Brooklyn Edison Co., Inc. (8%)	2,760	160
20	Detroit Edison Co. (8%)	2,580	160
15	Edison Elec. Ill. Co. of Boston (12%)	3,015	180
30	Consol. Gas Co. of N. Y. com. (5%)	2,633	150
20	Duquesne Light Co. 7% 1st pf	2,200	140
40	Amer. Gas & Elec. Co. 6% pf	1,805	120
20	Kansas City Pow. & Lt. Co. 7% 1st pf	2,016	140
20	Penn. Power & Light Co. 7% pf	2,080	140
20	Northern States Power Co. 7% pf	2,020	140

UTILITIES–*Continued*

Amount		*Cost*	*Income return*
$3,000	North Amer. Edison Co. sec. 6s, '52..	$3,019	$180
3,000	Kansas Gas & Elec. Co. 1st 6s, 1952	3,049	180
3,000	Ohio Power 1st ref. 5s, 1952.....	2,738	150
3,000	Commonwealth Pow. Co. sec 6s, '47	3,053	180
3,000	Tennessee Elec. Power Co. 1st & ref. 6s, 1947.....	3,068	180
3,000	Laclede Gas Lt. Co. 1st coll. & ref. 5½s, 1953.....	2,989	165
3,000	Nebraska Power Co. deb. 6s, 2022..	2,880	180
3,000	Southern Calif. Edison Co. ref. 6s, '43	3,060	180
	Total for utility securities.....	$47,753	$2,905

INDUSTRIALS

Shares			
20	Amer. Car & Foundry com. (6%)...	$2,060	$120
20	United States Steel com. (7%).....	2,410	140
30	National Biscuit com. ($4).....	2,040	120
30	Westinghouse Elec. & Mfg. com. ($4)	2,235	120
20	Great Western Sugar com. ($8).....	1,980	160
50	Sherwin-Williams com. ($2½).....	2,075	125
20	Borden Co. common ($4).....	1,620	80
Amount			
$2,000	Youngstown Sheet & Tube 6s, 1943..	1,995	120
2,000	U. S. Rubber 1st & ref. 5s, 1947....	1,763	100
2,000	Postum Building 6½s, 1943.....	2,000	130
	Total for industrial securities...	$20,178	$1,215

FOREIGN

Amount			
$2,000	German external 7s, 1949.....	$1,928	$140
2,000	Norway 6s, 1944.....	2,003	120
2,000	Denmark 6s, 1942.....	2,045	120
2,000	Argentine 6s, 1957.....	1,930	120
2,000	City of Montevideo 7s, 1952.....	1,908	140
2,000	Japanese 6½s, 1954.....	1,855	130
	Total for foreign securities.....	$11,669	$770

RÉSUMÉ

Cost as given.....	$99,514
Annual current income.....	6,120
Current interest return.....	6.15%
Number of different issues.....	43
Cost of common (or capital) stocks.....	$38,157
Cost of preferred stocks.....	14,381
Cost of bonds.....	46,976

XI

INVESTING FOR A WIDOW

By G. C. MAYER

QUESTION:

I am a young widow with two children. How shall I invest my entire fortune of $100,000?

ANSWER:

Your question has the commendable virtue of brevity, but for once it might have been better to have written more fully, indicating what degree of financial capability you possess, the scale of expenses you feel you must assume, etc. Lacking such information I shall assume that you are deficient in financial knowledge but intelligent enough to realize your present limitations, and that you will probably find means to spend all the income you receive.

These qualifications, or lack of them, place you under the necessity of seeking investment advice. Your first decision—whom to consult—has been made; and I am honored. The fact that you approached me indicates that you are alive to one danger—a real one—that of relying for financial advice upon relatives and friends. At the risk of repeating a rule you seem to have absorbed, never accept a financial recommendation from anyone, no matter how close in blood or friendship, without submitting it to the criticism of some disinterested person or organi-

zation you know to possess good judgment in financial matters.

"The Lamp of Experience"

Upon an occasion notable in our history, in 1765, Patrick Henry said:

"I have but one lamp by which my feet are guided, and that is the lamp of experience. I know of no way of judging of the future but by the past."

Let us be guided in matters financial as Patrick Henry was in matters political. The first thing we glean from the past and recorded experience is that no investment is free from risk. It is commonplace to hear that Liberty bonds are safe; and an imposing array of statistics and facts can be marshaled to support the statement. But they are not safe—absolutely. There is always the inscrutable future. In Marshal Foch's book, "Principles of War," he states:

"The unknown is a constant factor in war. All armies have lived and marched in the unknown. The best-commanded armies have lived and marched in the unknown—it was inevitable. But, they have resisted that dangerous condition; they have come out victorious, by depending in protection which has enabled them to live without danger in an atmosphere full of peril."

This may be paraphrased to apply to investors. How, then, may you be "victorious . . . in an atmosphere full of peril" in your investment problems? By recognizing that there are means of protecting yourself against the risks that are inescapable and that you have full choice of accepting varying degrees of risk. In short, you must diversify your investments

among different classes of securities, select only sound issues, and be eternally vigilant to inform yourself by inquiry and reading of the changing status of your holdings.

Another thing we learn from the financial past is that the prices of securities are constantly fluctuating. They do so from a variety of causes which I will not attempt to analyze here. The fact is sufficient.

Again, we learn that the value of money changes, which is to say that the cost of living fluctuates. We need not concern ourselves with the causes; for here also the fact is enough.

If you will reflect upon the foregoing, you will see that your investment problem may be resolved into two parts, viz., "What to Buy?" and "When to Buy?"

The Superiority of Common Stocks

Let us consider "What to Buy?" Broadly, you have two media for your funds:

Bonds, which place you in a creditor position; and

Stocks, which put you in a partnership position.

Which is the best, from the standpoint of safety, satisfactory income, and protection against changes in purchasing power? Again we consult the records of the past; or, rather, we will let Mr. Kenneth S. Van Strum do it for us. His researches are shown in a series of articles entitled* "Investing in Purchasing Power," appearing in *Barron's* week by week, from Feb. 23, 1925, to May 11, 1925. These articles you should obtain for a clear and full understanding. Briefly, they show that long-term investments in stocks

*Now available in book form under same title.

have proved superior to bonds respecting the three points we are considering. Quoting from the articles:

"With common stocks, in a period of rising prices, the cash value tends to rise under all except the most abnormal conditions sufficiently to offset the decline in purchasing power.

While theoretically, in an era of declining commodity prices, profits should shrink and therefore the money values of common stocks, these studies have demonstrated that the actual experience has been that in such times common stocks of the larger corporations have done practically as well as bonds.

. . . the placing of an investment fund in common stocks tends to eliminate speculation as to the future of commodity prices.

. . . the insurance provided by diversification is such that over a period of years the income has been fully as certain and the principal fully as secure as an investment in very high-grade bonds."

It is only fair to say that such doctrine, favoring stocks as against bonds for the long-term investor, is well-nigh revolutionary in the financial world. The "counsel of perfection" to the investor has been to ignore the swings of high and low prices, and to simply apply himself to seeking a safe income and the return of his principal in the future. But you cannot escape being affected by long-swing movements in the securities markets and in commodity price changes.

Maintaining Purchasing Power

To develop this point, I will ask three questions. Of what use is your money to you? Your probable answer would be that it is of decided use because it will support you and your children. How? Your

answer here could be the statement that if it is invested it will produce an income. Then is it true that you are primarily interested in the income you receive? If you answer yes to this question, you will be stating the fact but not the truth. For the truth is that what you are really interested in is not the amount of dollars you receive, but whether those dollars will meet your wants and satisfactions. If your income remains fixed, and as the years pass it will steadily buy less and less, you will readily realize that your real concern is in maintaining your purchasing power. If you were in such a posture, it would be cold comfort to reflect that your principal is in ultra-conservative bonds and that you will get it all back. True, you will; but if that money will buy only half what it would at the beginning, then your principal is worth only half what it was. Exactly this has been the experience of bondholders of the past quarter-century.

For Deferred Investment

Many authorities expect a period of declining commodity prices extending for many years. If this eventuates, the bond investor will not suffer in real income. If it does not so transpire, he will suffer in purchasing power. On past experience, the stock investor has nothing to fear from a period of declining commodity prices, while he will profit by advancing commodity prices. Stated otherwise, the risk of being adversely affected by changes in the cost of living is less when holding stocks than bonds.

For these reasons, I answer the "What to Buy?" question, in your case, by recommending that the major portion, say $75,000 of your fund, be placed, *at*

the time it seems best to buy, in a diversified list of dividend-paying common stocks of industrial corporations listed on the larger Exchanges, whose managements and prospects seem good. The remaining $25,000 I recommend for the purchase of good long-term bonds of ready marketability, diversified among rails, industrials and public utilities, *at the time it seems best to buy.*

Short-Term Bonds Are Superior at This Time

You may ask why any bonds are recommended, since such a good case has been made out for stocks. There are several reasons. Despite the disclosures of the past, it is not inconceivable that we may be on the threshold of an era when bonds will have an advantage. Or, you might have occasion to negotiate a loan, for which bonds are superior. Again, you may desire cash for a capital expenditure, such as buying a home at a bargain, a costly illness, or some such matter, at a time when your stocks may be in a temporary slump. And finally, have I not preached diversification?

"When to Buy?" is not now. We are in a period of high security prices. The market for all classes of bonds is at the highest levels it has reached since the war. Industrial stocks in the majority are at their highest levels in history. Likewise public utility stocks. And railroad stocks are higher than they have been in about ten years. Of course, this great upswing has lowered yields so that it is impossible now to secure satisfactory returns from sound securities. It is not given us to know the future; but, judging from the past, there will come a period when security prices will rule lower than they do today.

You ask when that will be. I do not know. No one knows.

Keeping Liquid

You ask further what you should do in this posture of affairs. I advise you to invest your fund now so that you may realize upon it with little or no loss in order to make long-term investments when the time seems ripe; which may be in two years, three or four or five. In other words, prepare your fund now so that later, when the answer to "When to Buy?" is "Now," you may convert your holdings into cash at little or no sacrifice in principal. You will accomplish this liquid position by buying the following:

$5,000	Sloss-Sheffield Steel & Iron 6% notes, 1929.
5,000	Industrial Bank of Japan 6% notes, 1927.
5,000	Central Argentine Ry. 6% notes, 1927.
5,000	C. C. C. & St. L. ref. 6s, 1929.
5,000	So. Car. & Georgia 1st 5½s, 1929.
5,000	Ches. & Ohio conv. 4½s, 1930.
5,000	Pac. Power & Light ref. 5s, 1930.
10,000	Railway equipment trusts (any two good roads), 1928.
5,000	Sinclair Crude Oil Purchase 6s, 1928.
5,000	Goodyear Tire & Rubber 1st 8s, 1941.
5,000	Steel & Tube Co. of America, series C 7s, 1951.
5,000	United Rys. of Havana, equipment trust 7½s, 1936.
5,000	Ft. Worth & Rio Grande 1st 4s, 1928.
5,000	D. & R. G. Imp. 5s, 1928.
5,000	Columbia Gas & Elec. 1st 5s, 1927.
5,000	St. L. & S. F. prior lien 6s, 1928.
5,000	K. C. Ft. Scott & Memphis cons. 6s, 1928.
5,000	Mich. Central deb. 4s, 1929.
5,000	Anaconda Copper sec. 6s, 1929.

These are sound bonds of corporations in good credit, due within the next five years (except the Goodyear, Steel & Tube and United Railways of Havana issues, which are callable near their present market price), well diversified, and having ready

marketability. If long-term purchases do not seem advisable at the earliest due date of any of them, then you should invest the proceeds at that time in some other good short-term issue then available.

You may object that the income return is small. Granted; but you would not do much better, if as well, should you buy sound long-term issues at this time. At any rate, I urge you to forego for the next few years a larger return for the sake of taking advantage of a more favorable investment period. It will repay you well.

The Time for "Permanent" Investments

I have no recommendations as to long-term investments. The time is not ripe; and by the time it will be, conditions surrounding any list that may be suggested now might, and probably would, be so altered as to make necessary many substitutions.

A final word; I have made no attempt to describe the phenomena or recite the indices of trade and markets by which you might identify the "When to Buy?" period. To do so would probably be only bewildering. Nor is such data infallible. The statistics of business cannot be resolved into a mechanical formula for choosing the buying time. The greatest emphasis must be placed upon judgment; and in all frankness, you cannot expect your inexperienced judgment to be good. In this difficulty, I suggest that you follow the stock and bond markets, especially by watching the Dow-Jones averages; and when you observe that there has been a pronounced decline, write again and we can then determine whether you should make your "permanent" investments.

XII

INVESTING FOR A WIDOW

By CHARLES E. CHAPMAN

THE first thing I would do would be to take the lady aside and address her somewhat as follows:

"Young woman, it behooves you as the mother of two children to learn at least the rudiments of investment. Why? Because no investment I or anybody else will make for you is going to stay 'put.' It is far harder to keep money, even when one is economical, than it is to make it. You have scant chance to make money, since you ought to stay home and take care of your children, but you must keep what you have, or else it's 'Good-bye you and the babies!' "

She would not understand me. But quite possibly she would be impressed. Presently I would make out a list of readings for her. But first I would explain some of the basic principles of investment.

INVESTMENTS FOR A WOMAN

A woman in her circumstances would need primarily a steady income and security of principal, without devoting much of her time to her investments. She ought not to own a business or risk any large proportion of her funds in a concern under the management of another. She should leave mortgages to people

who know real estate and are willing to assume the bother of collections and foreclosures. It comes down to a question, then, of owning income-bearing securities, and determining what ones she should procure and what policy she should follow in handling them.

Some financial experts insist that one's funds should be invested wholly in first-class bonds. At the opposite extreme is a school which holds that stocks are a better medium for investment. Any number of others have varying shades of opinion in between these two extremes, including a consideration of different types of bonds and stock. Many hold that a fairly even distribution between stocks and bonds is best. But I would tell my little widow that there is *no* system that she can adopt once for all, and live happily and cut coupons or sign checks forever after. She may have forty or fifty years' expectancy of life. How many funds of $100,000 invested conservatively forty or fifty years ago *and never changed* could have been depended upon to yield a fair income each year ever since, and still be a sound holding? Not many. She must look forward to the same sort of experience for the next forty or fifty years. Above all, she must be safe, at least until her children reach a mature age where they can help her. But, in any event, she must be prepared to change her securities time and time again, according to the changing character of her securities and *according to the position of the market.*

Advice from a Banker

We are getting "warm." Despite the financial reading I shall suggest to her,—especially in view of the fact that she will probably *not* read it!—the young

widow must have advice as to when and what to buy or sell. I shall help her buy, this once. But it isn't in the contract that I shall keep on doing it. I may die, or move away, or maybe have a jealous wife. So my young friend needs professional advice. This she may get from a broker, if there is a reliable house near where she lives, or, in any event, from her banker. My personal preference would be for the banker, because ordinarily I should expect my banker to be a more careful advisor, considering the safeguards that surround the banking business, and to have a greater personal interest in me. It is all a matter of the greatest amount of security for the young woman. This is a very important factor in the success of her investments,—so much so that I would pick out her advisor as part of my preliminary assistance to her and would warn her that the handsomest and politest men are not necessarily the safest!

"Warmer" still! We want safety of principal. So we don't want highly speculative stocks or shaky bonds. Anything that yields as much as 6% in the present market is likely to be too uncertain for us. The World War has taught us how transitory the financial standing of "Great Powers" may be. So let us have none of foreign securities, even though the bonds of England, Canada, Switzerland, and the Scandinavian countries look good at present,—but let the men buy them. There are plenty of good investments in the United States. To be sure, this country might also "go to smash," but it doesn't look likely, and if it did it would hardly matter what our investment list might be. We could buy United States government bonds on that principle, and be done with our

problem for the moment. But I think my young friend needs more income than she can get from that type of security. That is for income-tax dodgers or for institutions such as insurance companies, which don't have to worry about the changing price of commodities translated into cost of living.

This $100,000 investment is not to be permanent, but is subject to change. Therefore, we do not want the kind of securities you "put in your safe and forget about,"—which is usually another way of saying securities that lack marketability. We want marketability. So we shall take only securities of the New York Stock Exchange, preferring those that are at least moderately active. There are various other things we want. We want distribution of holdings, so that if one investment proves bad the loss will not be overwhelming. Distribution should normally involve purchase of securities of different industries and those representing different sections of the country. I say "normally,"—but distribution can be carried too far. We are not going to buy a hundred different bonds,—where could one find a hundred good ones?—and we are not going to get ten-share lots in the stocks of all the prominent industries. It is not necessary, and not advisable. Finally, we are not looking for profit, but we are not going to despise it when it is offered to us over the "long pull," virtually without risk. We must make up for the occasional bad investment. We must remember what I told the young woman at the outset,—that it is harder to *keep* money than to make it.

Favors Short-Term Bonds

Now we are getting "hot." What kind of securities am I going to purchase for my friend in the month of July, 1925? Some of the financial experts say the market is going higher, and some say it is due for a break, *but none of them says it is low.* Stocks and bonds have been advancing for well over a year, and some day they'll hit the top of the present move. And when the inevitable bear market comes, securities will almost certainly move to lower levels than now. We may be wrong in that view, though perhaps ninety-nine in a hundred would agree with us, but, in any event, we can't afford to assume that the market is going up, or, indeed, that it is going down. We must play safe. We must conserve our capital, and wait for a recognizably good buying period, when everybody knows the market is low. But as we must have income, we'll invest the $100,000 for the present in moderately short-term bonds of a sound type, with maturities ranging say from 1929 to 1939. Nearness of maturity will keep these bonds from falling far, even if the market breaks, because the bonds are to be of the sort that one may expect should be paid at par, when the due date comes. Later, when the market falls, we shall change them,—or some of them, —for good long-term bonds and maybe some first-class dividend-paying stocks, but not now.

The Suggested List

We are fairly "roasting,"—in fact, so "hot" that we'll give our list without more ado!

Item		Securities	Coupons	Income	Price	Cost
1	$6,000	Gt. No. gen. 7s of '36	J–J	$210–$210	110	$6,600
2	"	St. L. Iron Mt. and So. unif. and ref. 4s of 1929	J–J	120– 120	96	5,760
3	"	Am. Tel. & Tel. coll. tr. 4s of 1929	J–J	120– 120	97½	5,850
4	"	Northwestern Teleg. 1st mtge. 4½s of '34	J–J	135– 135	97	5,820
5	"	Punta Alegre cv. deb. 7s of 1937	J–J	210– 210	106	6,360
6	"	Ches. & Ohio cv. 4½s of 1930	F–A	135– 135	97½	5,850
7	"	Colo. & So. 1st mtge. 4s of 1929	F–A	120– 120	98	5,880
8	"	Wabash 2d 5s of '39	F–A	150– 150	97	5,820
9	"	Pac. Pow. & Lt. 1st and ref. 5s of 1930	F–A	150– 150	99	5,940
10	"	Balt. & Ohio cv. 4½s of 1933	M–S	135– 135	94	5,640
11	"	So. Pac. cv. 4s of 1929	M–S	120– 120	97½	5,850
12	"	Chi. Rock I. & Pac. ref. 4s of 1934	A–O	120– 120	88	5,280
13	"	Chile Cop. coll. tr. 6s of 1932	A–O	180– 180	107	6,420
14	"	Mil. Elec. Ry. & Lt. gen. and ref. 5s of 1951, payable '31	J–D	150– 150	98	5,880
15	"	Ore. Short Line ref. 4s of 1929	J–D	120– 120	97½	5,850
16	"	St. Louis S. W. con. 4s of 1932	J–D	120– 120	90	5,400
17	"	Armour & Co. real estate 4½s of 1939	J–D	135– 135	90	5,400

It will be observed that the foregoing are all short-term bonds, $6000 par value of each issue, without any stocks. The range in price between these bonds is not great enough to make it worth while to buy different numbers of each, and it is a mental relief to think in similar figures. Eleven of these securities are in rails, three in public utilities (items 3, 4, 9) and three in industrials (items, 5, 13, 17). With one exception they yield in the vicinity of 5%. All seem

reasonably safe. Two of them, however, represent a speculative factor on the up-side, with scant probability of any considerable drop down. These are the Punta Alegre and Chile Copper issues, by no means first-class, yet hardly involving much risk in a fund to be handled as this one is. The total cost will be $99,620, leaving a small balance, most of which will be due in commissions.

Should Save $600 per Annum

These holdings are not ideal, for the present market does not permit of purchases that will make for a perfect arrangement. For example, the young woman's income, amounting to $4860, is quite unevenly distributed. This will necessitate the adoption of a plan for use of the income. One feature of it will be savings. On this income she ought to save an average of $50 a month, or $600 a year. Why save? For a thousand reasons, but among others, to make up for the already emphasized difficulty of keeping money. Three of her bonds, too, were purchased above par, and therefore the coupon rate on them is in part capital, not all income. Furthermore, she needs a sum to be employed on as generous a life insurance policy as she can carry out of savings. Small surplus amounts of savings could be left in the savings bank until they had accumulated sufficiently for the purchase of some security. Meanwhile, she is to have an allowance of $355 a month,—or say $350 a month, plus a special $60 in December for Christmas. On this basis the following will be her budget:

THE BUDGET

Month	*Income*	*Allowance*	*Savings*	*Cash on hand*
January.....	$795	$350	$155	$290
February.....	555	"	0	495
March.....	255	"	0	400
April.....	300	"	0	350
May.....	0	"	0	0
June.....	525	"	175	0
July.....	795	"	155	290
August.....	555	"	0	495
September....	255	"	0	400
October.....	300	"	0	350
November.....	0	"	0	0
December.....	525	"	115	0

There are many other hints I might give the young widow, but most of these I shall have to save for the future in long hours of conversation with her,—if she is interesting. I shall go into probable future situations of the market when it will be proper to shift into long-term bonds and even some high-grade stocks, at a time when the market is recognizably low. I even have an idea just what I might suggest for a list, but will not disturb her with it now, as many changes may occur before 1926, 1927, 1928, or whenever the time comes for her to revise her holdings. Then I can assure her of the moral certainty of a greater income and an almost equally great certainty of a later capital profit.

How to Keep Posted

Meanwhile, unless she has absolutely no interest in the workings of finance, there are many things she might read. Offhand, I think of the following books: Browne, *Tidal Swings of the Stock Market;* Carret, *Buying a Bond;* Chamberlain, *The Principles of Bond Investment;* Gibson, *The Cycles of Speculation;*

Guthmann, *The Analysis of Financial Statements;* Hamilton, *The Stock Market Barometer;* Jordan, *Investments;* Lincoln, *Applied Business Finance;* Lough, *Corporation Finance;* Lyon, *Investment;* Meeker, *The Work of the Stock Exchange;* Pratt, *The Work of Wall Street* and Van Strum, *Investing in Purchasing Power*, etc. There are dozens more. In addition to glancing over the financial pages of her daily paper, she might also subscribe to some moderate priced financial magazine. If she followed my advice it would be *Barron's;* I have tried a number, and this suits me best. *The Wall Street Journal, Moody's,* and other like expensive publications she may leave to the brokers and libraries, where she may go to see them if she wishes. Nor should she subscribe to an expensive financial service; in my opinion she will get better advice, free, from her banker.

In conclusion, I have already picked out the financial advisor for my particular widow—not exactly *my* widow, I hope. He is a banker here in our home city. He approves of my list and my method. So, now then, bring on your $100,000,—*and bring on your widow!*

XIII

INVESTING FOR A WIDOW

By CHARLES F. BARTHOLOMEW

The times are not propitious for investing money. A huge volume of funds seeking investment has resulted in security markets reaching very high levels. Yet we are faced with the problem of investing $100,000 which represents the entire fortune of a young woman who has been left a widow with two children.

The security markets have been adjusted to an excellent business prospect and low money rates. If precedent is any guide to the future, conditions will not always be so favorable. Can we, then, so handle these funds that they will give satisfaction over a period of years? The writer believes so and offers the following in support of his opinion.

Income with Safety

It is obvious that, in this investment problem, a steady and safe income is the primary requisite. The money does not represent a surplus to be used in any way its owner sees fit. It must be used to provide income for living expenses. Appreciation or depreciation of the principal amount is unimportant except as it signifies a change in income. The money should be invested with the sole idea of providing the largest income consistent with safety. If we can secure an income from the money substantially in excess of cur-

rent rates with reasonable assurance that it will not decline in future years, the principal will take care of itself.

There are all degrees of safety in income-bearing securities, from a stock which may be forced to discontinue dividends at any time, to a bond, the interest on which may be considered as safe under any conceivable circumstances. How great a risk are we justified in taking in order to increase the income above the 4% or 4½% yield afforded by the highest-grade bonds? What type of security at the present time is most desirable from the point of view of income return and safety of that income under various conditions which may be encountered in the future?

Can Do Better than with Bonds

Will bonds serve the purpose? A safe and steady income would be provided and maturities at regular intervals would prevent more than nominal depreciation due to higher money rates. But can't we do better? It is easier to select good bonds than any other type of security. We are not seeking the easiest way. We want to determine the way in which the money may be invested to give the utmost satisfaction over a period of years.

It will be claimed, of course, that as this money constitutes the entire fortune of a person unable to acquire more, risk should be reduced to a minimum. In other words, the medium should be bonds. Bonds are the safest form of investment. They always have been and by their nature they must continue to be so. Common stocks offer the greatest opportunity for profits. Their purchase also involves the

greatest risk. It could hardly be otherwise. The bondholder is a creditor of a corporation. The common stockholders are the owners and must share in its adversity as well as its prosperity.

But I am not going to invest the money in bonds. This article is in response to a request for the best answer as to how to invest $100,000 to provide income for a widow with dependent children. As previously stated, the easiest answer would be high-grade bonds. It is safe to say that such an answer will not be selected as the best. The best answer will obviously have to demonstrate a way in which the money can be invested to greater advantage than the average person could accomplish. I am discarding bonds because I believe the money can be employed to yield a larger income without accepting an undesirable risk.

Equity Shares at High Price Levels

Interesting comparisons have recently been made to demonstrate the advantages of common stocks as long-term investments. It is true that common stock commitments involve greater risks than bond commitments, but it is equally true that in the past those risks have been worth taking. The industrial history of this country is one of progress. The great corporations which have been able to perform a service needed or desired by humanity have had the benefit of a constantly increasing population, carrying with it a wider market for their goods or services. Those corporations which are able to make a place for themselves in the business life of the nation and demonstrate a capacity for growth, attract men of large ability and genius into their employ and so strengthen their

position. The natural tendency has been for industry to expand and for individual corporations with able and efficient management to increase the scope of their operations and services. Naturally this has been reflected in increasing values for equities in corporations above their debt.

But I am not going to include common stocks in the investment. This country has always emerged from depression and gone on to greater prosperity than it has ever known before. But that does not hide the fact that we have depressions. The policy of taking advantage of the major swings of the stock market to make purchases and sales of common stocks has been proved a sound one. History records that periods of bargain prices in stocks alternate with periods of dear prices. Prosperity often has the effect of dulling our senses and blinding our eyes to facts. It is a fact that we cannot always have prosperity. People forgot that fact in 1916 and again in 1919, and they are forgetting it now. But the wise investor never forgets it. The times are not propitious for acquisition of a broad list of common stocks. There will be real buying opportunities in the future, just as there have been in the past. They will not necessarily be so attractive as in 1917 or 1921, but they will be attractive measured by the present level of prices.

Preferred Stocks

There recently appeared in the columns of the most prominent daily financial paper the following statement: "Demand for high-grade preferred stocks with undisturbed dividend payments is greater than in years. Some preferred stocks netting 6% to 6½% are as well

secured, some of them even better secured, than bonds yielding 5%."

Such a statement can hardly be overlooked by an intelligent investor. The country's largest financial paper does not employ men who will write such things without first being sure of their facts. Yet, if the statement is true, many investors are buying securities to yield 1% to 1½% less than others which are just as good.

An expert investor avoids securities which are popular. He doesn't want to buy those which everyone knows are high-grade. He won't find bargains among them. He likes to buy those the desirability of which is in doubt, when his knowledge of conditions and security markets convinces him that such doubt is undeserved.

The record of the industrial preferred stock issues offered during the post-war period of inflation is fresh in the minds of many investors. It is no secret that many trustees with large amounts of money intrusted to their care discriminate against preferred stock issues in investing that money. A great many well informed investors believe that as a type of security it favors the issuing corporation rather than the investor.

Why They Are in Disfavor

Preferred stocks are an unpopular type of security. If a consideration of the facts shows their unpopularity to be undeserved, we should be able to find some bargains among them despite the fact that the times do not favor finding security bargains.

Probably the most common argument against the

preferred stock is that it shares in part the risks of the enterprise without sharing in its prosperity. The statement is true. But, what of it? It is also true of bonds. Neither share in the prosperity of the issuing corporation. The investment calibre of both is dependent upon the earning ability of the company being maintained.

The point of inferiority of preferred stocks as compared with bonds is that preferred stocks are issued primarily against earning power while bonds, in addition, have a claim against assets in case of default. The bondholder can take immediate action to recover his funds, while the preferred stockholder, in case of suspension of dividends, can do nothing but wait for recovery of earning power. But it is unnecessary to comment at length upon the bondholder's privilege and its doubtful advantages. In a well selected group of bonds there will not be one which will default. Nor will a preferred stock, selected after competent analysis fail to pay dividends.

Easy to Select the Best

We have more information about different corporations than we have ever had before. We have a greater understanding of business trends and the nature of different enterprises than ever before. It naturally follows that we are better able to select sound investments than ever before.

A number of years ago, in selecting a large group of bonds, it was hardly to be expected that all of them would turn out favorably. That is no longer true. An investor cannot be justified for having among his holdings a bond issue which will default or a preferred

stock issue which will pass its dividend. Intelligent analysis would show up their weakness.

The unsatisfactory record which many industrial preferred stocks have made, and which is probably as much responsible as anything else for discrimination against all preferred stocks by many investors, may be disregarded in estimating their investment qualities. Because there have been poor preferred stock issues, it does not follow that there are not good ones any more than the fact that many mining and oil ventures have been unsuccessful means that those industries offer no field for profitable investment.

A bondholder is a creditor of a corporation. A common stockholder is a part owner. A preferred stockholder is really neither. But he must receive his due before the common stockholders may receive anything. As far as the owners of an enterprise benefiting from their ownership is concerned, it is just as important that preferred dividends be paid as it is that bond interest be taken care of. And this fact has resulted in a great number of preferred stock issues having been, over a long period of years, a most satisfactory medium of investment for a great many people.

Favor Concerns in Essential Industries

I have not attempted to prove that the preferred stock as a type of investment is on a parity with bonds. It is distinctly an inferior type. By no method of reasoning could a preferred stock and a bond of the same corporation be considered as equal in safety. But, if we are able to confine our investments to companies which will maintain their position in an essential

industry which will continue to do business at a satisfactory profit, then preferred stocks obviously afford a satisfactory medium.

It will be well to mention again what we want to accomplish in investing this $100,000. We want to provide an income and nothing more. There are many corporations which I believe are facing a most promising future. Their equities, represented by common shares, will, I believe, become more valuable as time goes on. Yet, even if I am willing to forget the fact that the times do not favor the acquisition of a group of common stocks for investment, I find that by so doing I cannot accomplish what I set out to do, namely, provide a suitable income.

The Choicest List

If, by employing preferred stocks as the medium, we can secure an income far in excess of the current rates for money and at the same time avoid taking an undesirable risk, then that type of security is obviously the logical one for the investment. By its use we can accomplish what we set out to accomplish. I do not believe another type of security could be employed to give a better result.

Seasoned preferred stocks of companies with long records of successful operation and unquestioned financial strength command high prices. To a large extent the high investment quality of the preferred shares of public utility companies have been recognized in the past year or so by substantial price appreciation. But the popular opinion that as a class preferred stocks are an unattractive type of investment, keeps a great

number of such issues at prices which fall far short of reflecting their intrinsic worth as investments.

I lack space to set down the various factors that were considered in selecting the issues picked for my investment list. Many of the issuing companies have emerged from difficult periods without omitting a dividend. In other words, they have been tried and not found wanting. In other cases, changing conditions warrant the conclusion that operating results of the issuing corporation will be better in the future than in the past. The financial condition of the various companies, their earning ability both past and prospective, the demonstrated ability of their managements, and the place which they have made for themselves in the nation's business structure, by virtue of a needed service satisfactorily performed, convince me that they will continue indefinitely to earn and pay their preferred dividends.

A 7¼% Return on Investment

The income return on the investment suggested will be about 7.25%. Select bonds yielding that amount, and see the type of corporations that are represented. Select common stocks with dividends that return as much and see how doubtful are the prospects for continuance of those dividends over a period of years. Remember that the sole function of the money involved is to provide income and try to figure in what other way as large an income with the same security could be obtained.

Argue that the income is too large, under present conditions, to warrant expectation of its stability. And then study the different companies more closely. Con-

sider the assets which are working to provide each year the amount necessary to pay dividends. Consider the useful service which those assets, in the hands of able management, perform. Find periods in the past, if any, when operations failed to provide enough income to pay dividends. Find the reasons, and then see how remote are the possibilities of their recurrence. That is what the writer did and he found that the risk involved in purchasing the stocks, which follow, was not undesirable:

Shares	*Company*	*Div.*	*Price* (a)	*Yield*
100	Bangor & Aroostook	$7	$92	7.61%
90	Boston Elevated (1st pf)	8	111	7.20
100	Brooklyn-Manhattan Transit	6	80½	7.45
100	Burns Brothers	7	91½	7.65
100	Chicago, Rock Island & Pacific	7	96	7.29
100	Gulf, Mobile & Northern	(b)6	97	6.19
100	Hudson & Manhattan	5	70	7.14
100	Orpheum Circuit	8	102	7.84
80	Public Service Corp. of N. J.	8	114	7.01
80	Schulte Retail Stores	8	114	7.01
200	Warren Brothers (1st pf)	3	41½	7.23

(a) Quotations as of July 25, 1925. (b) Back dividends due. These should be reinvested if and when received.

Amount invested	$99,420
Annual income	7,200

XIV

INVESTING FOR A WIDOW

By EDWARD S. HOWE

THE problem presented is to invest $100,000 for a widow with two children. Immediately all hazardous issues should be put into the background. It can be assured, however, that there will be more need of money in the future years when the children reach the college age and so the opposite of all speculative issues would not apply either. Thus all the money invested in the world's safest and most readily marketed bonds—United States Liberty bonds—would not serve the full purpose of a best investment for $100,000 in this case.

LIBERTY BONDS AS A BACKLOG

Come what may, let it be assumed the widow and two children could, if hard pressed, live without misery or hardship on their earnings if any and $100 monthly or $1200 annually. Then this minimum requirement should be met by investment in the safest of bonds—Liberty bonds. It assumes these bonds are so safe that they will still remain good and yield their interest regularly, even if all the other investments fail. $30,000 in $4\frac{1}{4}\%$ 2d Liberty bonds gives $1275 annually.

A TENTH OF FUNDS IN FOREIGN INVESTMENTS

With such an investment in Liberty bonds, a limited and diversified investment abroad would be justified. Ten per cent of the whole would be eminently con-

servative if issues are chosen from people whose records of payments are among the best. Such a list, payable in United States funds, is possible with two issues from Europe, two from South America, and one from the Orient, thus:

$2,000	Norway 6s, 1952
2,000	Swiss 5½s, 1946
2,000	Chile 7s, 1942
2,000	Medellin (Colombia) 8s, 1948
2,000	Japan 6½s, 1954

Domestic Bonds Selected

As a balance to the 10% foreign investment, a corresponding 10% investment in widely different established domestic concerns is to be recommended. A list of bonds with first claim on net income follows:

$2,000	Atlantic Refining 5s, 1937
2,000	Anaconda Copper 6s, 1929
2,000	U. S. Rubber 5s, 1947
2,000	Central Leather 6s, 1945
2,000	Ambassador Hotel 6s, 1931 (a Straus & Co. bond)

Common Stocks to Bolster Income

That covers one-half of the amount to be invested; 30% Liberty bonds, 10% foreign bonds, and 10% domestic bonds. All of them are high grade, widely distributed, one from another, not interdependent, and for the most part readily marketable. Bearing in mind that the future years will likely bring greater demands for income, the remaining half of the investment should be in common stocks of high grade and already established dividend records. The recent serial "Investing in Purchasing Power" that appeared in *Barron's* amply demonstrated the feasibility of common stock investments. If the list of stocks

commonly quoted on the New York Stock Exchange is examined and those stocks paying dividends are jotted down, they naturally fall into some dozen general divisions if a miscellaneous column is allowed for one division of "specials." The divisions are:

1. Electric light and power.
2. Steam railroads.
3. Railway equipment.
4. Telegraph.
5. Food.
6. Electrical manufacturers.
7. Chemical industries.
8. Metal industries.
9. Automobiles.
10. Specials.

Divisions 11 and 12 are coppers and oils respectively. They are not placed with the mentioned ten divisions because of the depletion factor entering the nature of copper and oil businesses. Bonds of merit in these two last industries are worthy of a place in this investment list. One oil and one copper bond are included.

A Real Estate Bond

According to the amount necessary to round out the entire $100,000, a high-grade Straus & Co. bond or similar high-grade real estate mortgage bond, may be substituted for the mentioned Ambassador Hotel bond. Prices mentioned further on in the report, although of recent date (June, 1925) cannot hold from day to day. This one bond, then, is given some freedom so as to fully employ the $100,000, it being the purpose to make all the other purchases and then

with the whole amount remaining to invest in a real estate mortgage bond of a high quality and preferably of $2000 denomination.

The Degree of Diversification

To return to the common stocks again, the ten groups which are in the class of dividend-paying stocks are unquestionably the groups from which stocks for this investment should be chosen. On the other hand, there is no reason why stocks in the same groups but not listed on the New York Stock Exchange should be barred. We have then used the long list of active stocks on the New York Stock Exchange solely to indicate the country's dividend-paying groups, but within each group we have searched the entire country for most appropriate individual investments. With ten mentioned groups and four investments per group plus the five foreign and five domestic bonds, there are just fifty investments besides the $30,000 backbone of Liberty bonds.

There is one exception in the list of forty common stocks. It occurs among the list of electrical manufacturers. It is General Electric special stock. Although not a common stock it is included as a very desirable stock and also because the stock will automatically become added to the list if the established General Electric policy of declaring this stock as a dividend is continued.

The Investment List

The entire list of bonds and stocks with the (June, 1925) purchasing price and interest or dividend rate follows:

30% IN UNITED STATES GOVERNMENT BONDS

Amount		*Price*	*Cost*	*Interest*
$30,000	U. S. Liberty, 2d 4¼s, 1942...	101	$30,300	$1,275

10% FOREIGN BONDS

2,000	Norway 6s, 1952.....	100	2,000	120
2,000	Swiss 5½s, 1946.....	103	2,060	110
2,000	Chile 7s, 1942.....	101	2,020	140
2,000	Medellin (Colombia), 8s, 1948.	98	1,960	160
2,000	Japan 6½s, 1934.....	94	1,880	130
	Total.....		$9,920	

10% DOMESTIC BONDS

2,000	Atlantic Refining 5s, 1937....	100	2,000	100
2,000	Anaconda 6s, 1929.....	103	2,060	120
2,000	U. S. Rubber 5s, 1947.....	89	1,780	100
2,000	Central Leather 6s, 1945.....	100	2,000	120
2,000	Ambassador Hotel 6s, 1931 (a Straus & Co. bond).....	99	1,980	120
	Total.....		$9,820	

50% COMMON STOCKS

Electric Light and Power

Shares				*Div.*
10	Brooklyn Edison.....	134	1,340	80
10	Commonwealth Edison.....	140	1,400	80
10	Edison Elec. Illum. Co., Boston..	210	2,100	120
10	Montana Power.....	82	820	40
	Total.....		$5,660	

Steam Railroads

10	Atchison, Topeka & Santa Fe....	117	1,170	70
10	Southern Pacific.....	99	990	60
10	Southern Railway.....	95	950	50
10	Delaware, Lackawanna & Western	142	1,420	70
	Total.....		$4,530	

Railway Equipment

10	American Car & Foundry.....	102	1,020	60
10	American Locomotive.....	117	1,170	80
10	Baldwin Locomotive.....	110	1,100	70
10	Pullman Co.....	136	1,360	80
	Total.....		$4,650	

Shares		Price	Cost	Div.
	Telegraph			
10	American Telephone & Telegraph	142	$1,420	90
10	Western Union Telegraph	131	1,310	70
10	All America Cables	131	1,310	70
10	Mackay Companies	121	1,210	70
	Total		$5,250	
	Food			
10	National Biscuit	69	690	40
10	United Fruit	210	2,100	100
10	Corn Product Refining	33	330	20
10	Quaker Oats	112	1,120	60
	Total		$4,240	
	Electric Manufacturers			
10	General Electric	287	2,870	135
10	Westinghouse Electric	71	710	40
10	Allis-Chalmers	81	810	60
10	General Electric spec. stock	11	110	6
	Total		$4,500	
	Chemical Industrials			
10	Eastman Kodak	108	1,080	80
10	Dupont de Nemours	170	1,700	100
10	Air Reduction	102	1,020	40
10	Allied Chemical & Dye	90	900	40
	Total		$4,700	
	Metal Industrials			
10	United States Steel	114	1,140	70
10	American Can	185	1,850	70
10	American Smelting & Refining	102	1,020	60
10	Singer Manufacturing	258	2,580	70
	Total		$6,590	
	Automobiles			
10	Packard Motor Car	28	280	17
10	Hudson Motor Car	62	620	30
10	General Motors	77	770	60
10	Studebaker	46	460	40
	Total		$2,130	

Specials

Shares		*Price*	*Cost*	*Div.*
10	Guaranty Trust Co.	343	$3,430	160
10	American Bank Note	170	1,700	50
10	Procter & Gamble	124	1,240	40
10	F. W. Woolworth	134	1,340	30
	Total		$7,710	
	Bonds		$50,040	$2,495
	Stocks		49,960	2,538
	Grand Total		$100,000	$5,033

Better than 5% Return

Analysis of the investment is interesting. There are many interesting comments to be gleaned from study of the list as a whole which the individual reports and balance sheets will not show. The grand total is $100,000. Just over one-half is in bonds or $50,040, giving a fixed interest annually of $2495. Just under one-half is in stocks or $49,960, giving at present dividends $2538 annually. The bonds yield an average rate of 4.99% and the stocks average 5.08%.

However, the five foreign and five domestic bonds yield 6.18%, reflecting the great advantage of carefully selected foreign bonds from point of yield. The Medellin 8s give the highest yield of any bond, due to conditions which do not weaken the security itself. First, Medellin is comparatively unknown although it is an important coffee center and, second, inferior credit risks immediately surrounding it cast their shadow of lower standing over Medellin's fine credit unwarrantedly.

First Claim on Earning Power

Among the bonds, care has been exercised that they should be bonds having first claim on income, whether income of a government or of a corporation. Nine of the forty kinds of stocks are permitted to enter the same category because no preferred stocks or bonds precede the common stocks in question. These are:

Shares		*Cost*
10	Pullman	$1,360
10	All America Cables	1,310
10	United Fruit	2,100
10	Air Reduction	1,020
10	Singer Manufacturing	2,580
10	Packard Motor Car	280
10	Hudson Motor Car	620
10	Guaranty Trust	3,430
10	F. W. Woolworth	1,340
	Total	$14,040

This total of $14,040 added to the $50,040 invested in bonds gives a total of $64,080 having first claim on income or just under two-thirds of the whole. The Packard Motor Car Co. has called its preferred stock for retirement, although it is not actually retired yet.

Another Attractive Group

Moreover, eleven others of the forty kinds of stock are preceded by no bonds but only by moderate amounts of preferred stock. So on these, too, there is no prior claim except when there are earnings with which to make payments. These common stocks have been paying dividends in varying amounts, gradually increasing during recent years. The profit and loss surpluses already accumulated for the eleven cor-

porations involved would be enough to retire half or more of the whole amount of all the preferred stocks. So these likewise might be added to the list of stocks and bonds already mentioned, which have no prior claim on income. These eleven kinds of stock are:

Shares		*Cost*
10	American Car & Foundry	$1,020
10	American Locomotive	1,170
10	Mackay Companies	1,210
10	National Biscuit	690
10	Quaker Oats	1,120
10	Allis-Chalmers	810
10	Eastman Kodak	1,080
10	Allied Chemical & Dye	900
10	Studebaker	460
10	Procter & Gamble	1,240
10	American Bank Note	1,700
	Total	$11,400

This total of $11,400 added to the $64,080 having first claim gives $75,480, or three-fourths of the whole amount not burdened with any previous bonded indebtedness,—a really remarkable investment if security, yield, and probable enhancement in value are considered. There is one minor exception, for Allied Chemical & Dye Co. has a subsidiary company bond outstanding, which amounts to less than 1% of its outstanding stock, a very minor consideration.

Common Stocks of Investment Calibre

There remains to be made an analysis of the remaining twenty kinds of stock on the list. They are all well known investment stocks and leaders in their respective classes with already established earning power. They are:

Shares		*Cost*
10	Brooklyn Edison	$1,340
10	Commonwealth Edison	1,400
10	Edison Electric Illum. Co., Boston	2,100
10	Montana Power	820
10	Atchison, Topeka & Santa Fe	1,170
10	Southern Pacific	990
10	Southern Railway	950
10	Delaware, Lackawanna & Western	1,420
10	Baldwin Locomotive	1,100
10	American Telephone & Telegraph	1,420
10	Western Union Telegraph	1,310
10	Corn Products Refining	330
10	General Electric	2,870
10	Westinghouse Electric & Mfg.	710
10	General Electric, special	110
10	E. I. du Pont de Nemours	1,700
10	United States Steel	1,140
10	American Can	1,850
10	American Smelting & Refining	1,020
10	General Motors	770
	Total	$24,520

A Wealth of Corporate Assets

The combined resources of the companies represented by these twenty kinds of stocks form a stupendous investment of $1,750,000,000 in bonds, $900,000,000 in round numbers in preferred stocks and $3,300,000,000 in common stocks. The accumulated profit and loss surpluses of the combined companies are well over the total indebtedness of bonds and sufficient therefore to retire all the bonds at par, leaving only the prior claims of preferred stocks, which are only three-elevenths as great in amount as the common stocks. Of course, the profit and loss surplus of any one corporation will never be used to redeem the indebtedness of any other corporation in the list and the above statement must be used only to show the tremendous assets behind the list of stocks chosen. Indeed, conservative amounts

of low interest-bearing bonds are justified in businesses with high fixed and permanent investments, like power plants of electric utilities and roadbeds of railroads. In prosperous companies, such bonds only serve to make the common stocks more valuable.

Not only when the list is examined in the aggregate but also when study is made of individual items, the same conservatism is found. Prosperous railroads are conservatively financed if not over 60% of the investment is in bonds, and in this list no railroad exceeds that amount. Of the others, Commonwealth Edison has 51% and the United States Steel 40% bonds, while all the others have a lower ratio showing an extremely well balanced financial structure in each case.

Conclusion

Thus the $100,000 is invested in fifty distinct channels, each one of high calibre, and with 50% of the whole in common stocks. There is an almost assured increase in income through larger dividends from time to time or increase in capital through stock dividends. These increases as the already mentioned article on "Investing in Purchasing Power" so clearly shows, should offset any losses or reduction in dividends or capital. The list is presented as a suitable investment of $100,000 for a widow with two children. Such it is, but the widow should not allow it to remain unwatched, and the proviso is added that some one must have the duty rest upon him to analyze and reanalyze the investments all the time. Such misfortunes as the passing of the dividend on the stock of the Amoskeag Mills after a continuous record of

sixty-five years and now the omission of the quarterly dividend of the Victor Talking Machine stock, that only a couple of years ago held a high investment rating, preclude anything but eternal vigilance for this and all other investments. Study of the printed reports of the various companies and Moody's Ratings of all these investments will only serve to emphasize the merit of the list as a whole.

XV

A CRITICISM

By JOHN R. THOMAS

Awarded $100 as the best constructive criticism of the three prize articles in the "Investing for a Widow" contest

On a contest of such magnitude as the one just held, a criticism, to be just and complete, would of necessity be far more bulky than the articles of any one of the first three successful articles, or for that matter all three. As I see it, the criticism should point out the strong points, the weak points and suggest such changes as in the mind of the writer would materially strengthen the essays in question.

Uniformity of Opinion

At the start there is a noticeable likeness in all three of the winning papers. To review—Van Riper invests 20% in short-time bonds, 40% in long-time bonds and 40% in common stock, Brundage has exactly these same proportions, while Brown has varied his investment percentages slightly, to allow 66% bonds and 33% stock. This would seem to be therefore the accepted percentages for investment of such funds, *i.e.*, 60% to 66% of bonds and the balance common stock.

Van Riper's idea for the natural increase of invested capital by the purchase of discount bonds is a good one, and one that will readily be used, as it already has been, by our bond houses. There are in each article outstanding good points that it will pay to read and re-read, but I believe the gravest error in

the articles is the fact that none of the three is logical in the method of investing and that they overlook sound economic facts that no amount of explaining can overcome.

The Factor of Peak Stock Prices

The problem consisted of investing $100,000 for a widow with two children. *The time is NOW.* That last short sentence is what all three gentlemen overlooked and which should subject their articles to the greatest criticism.

To carry this out one must admit certain things:

(*a*) The purchasing power of the dollar is at 63 cents. It has not changed materially since July.

(*b*) The stock market is at one of the greatest peaks in its history.

(*c*) The bond market has not attained its heights as compared to other securities.

(*d*) The companies, railroad, public utilities, industrials, etc., have not taken the final adjustment that must follow such a wave of prosperity as we have had since 1916.

We have all read Van Strum, and his articles were highly entertaining and covered vast papers with figures, but they prove nothing besides the fact that "hindsight is better than foresight." His articles, and similar ones, are unquestionably the basis for much of the three successful theses.

Prosperity Can't Last Forever

We must be logical. If the dollar is at a low point, common stocks are, or should be, high. The fact is they are high; on the contrary, bonds are low. It is

true that the level of bond prices is not in line with the low level of the dollar, but they are more in line, and closer to normal, than the stock. We cannot look for any great prosperity wave to last indefinitely, and with the decline of wages, of commodities, of purchasing power of the masses, comes the decline in the price of stocks and their inevitable smaller return. To be sure, the widow may obtain from her stocks an equitable return on her capital in relation to the purchasing power of each dollar, but surely no one can overcome the fact that she would be losing part of her capital each year as we sift nearer and nearer to a more normal basis.

Suggests a 100% Bond List

Can it be successfully denied that the widow would not be far better off if her entire fortune were in bonds?

We come to another point, not mentioned in the articles of the three, and of prime importance to an investor, particularly a widow—freedom from care of her securities. Again there is no argument but that the bonds are again the favorite. Can it be denied that, instead of the stocks, if she would purchase bonds of foreign countries payable in American gold, that she would not be infinitely better off. The foreign bond market is low, the security is good, the length advantageous and the possibility of increase in principal much more probable. But two of the articles had any foreign bonds, Van Riper allowed $5000 and Brown $12,000. In a low market for foreign bonds such bonds as—Argentine 6s of 1959, Australian 5s of 1955, Norway 6s of 1944, Swiss 8s of 1940, etc., are over-

looked. These are but a few of them; any large city's daily newspaper mentions scores of them.

Municipal and Foreign Bonds Overlooked

Again, in none of the three articles is there any municipals. In our whole country we can find no tax-paid bonds as a possible investment for the widow's funds. The reason is cogent, there is no necessity for tax-exemption. Tax-exemption, according to every investment man in the country, is but one item of the true investment. There is safety, yield, etc., but particularly diversification. It is true the bonds of eastern municipalities are on high-price levels and the yield correspondingly low, but are we so provincial that the bonds of the western states and their political sub-divisions should be overlooked? Bonds of good counties, small cities and towns, school districts and other direct obligations are obtainable to yield 4.50% to 5%. It is true marketability is impaired slightly, but does madame need such marketability; does she not really need stability of market? Municipals and foreign bonds would have helped all three lists greatly.

The Lack of Diversification

Let us analyze the diversification of the bond list. Van Riper gives foreign (Canada) 8%, industrial 8%, public utility 31% and railroads 53%. Brundage—foreign (none), industrial 6.4%, public utility 14.3% and railroads 79.3%. Friend Brown's is the best of all three on diversification as follows—foreign 18.1%, industrial 22.7%, public utility 27.3%, railroads 31.9%.

Certainly this is not sufficient diversification. Would

you put 32% or 53% or 79% into railroad bonds when investing a widow's money? Have we forgotten the New York, New Haven & Hartford, to say nothing of many others. Should these be considered securities of better worth than good municipal or foreign bonds?

To sum up, the main objections to the articles are:

(*a*) Common stock, at the wrong time in the economic cycle and the wrong time in the market.

(*b*) Not utilizing investments of high degree of safety that can be had at a low price and a good return of interest.

(*c*) Lack of diversification.

XVI

A CRITICISM

By WALTER B. BINNIAN

Revolving Maturities vs. *Equities*

In each of the three winning plans for the investment of $100,000 for a widow with two children a portion varying from 33% to 40% of the fund was placed in common stocks. In each case the primary reason given was that because the purchasing power of the dollar fluctuates inversely with the cost of living, there should be provided an increased income during a period of high living costs and that this could be done best through common shares, the dividends from which increase in a period of advancing living costs.

Did the railroad and public utility shares show such an increase in dividends in the period from 1916 to 1920 when the cost of living more than doubled? On the contrary, not only did their dividends not increase but in many cases they actually decreased in that period.

And it is logical that they should not increase under those circumstances, for the rates allowed the utilities and railroads are fixed by public commissions and no advance is permitted until the utility can show through protracted hearings, that because its operating costs have inevitably advanced, an increase in rates is necessary. In other words, the increase in rates lags so far behind the increase in costs that the net

income per share isn't allowed to show an increase until the costs cease rising and become stabilized or decline.

It is only industrial shares which gain in income return in a period of rising commodity prices. And yet the investment in industrial common shares in the three lists given amounts to only 13% to 25% of the total fund.

Questions Selection of Common Stocks

These common shares have been included primarily to offset advancing living costs. The current controversy regarding the trend of the cost of living has many advocates of the theory that the cost of living will not go down during the next decade—and many that it will. Few there are, however, who venture to assert that we are facing a rising living cost over the next ten years. Consequently isn't the inclusion of common industrial stocks for the purpose stated questionable?

Moreover, if common dividends are subject to increase during a period of rising commodity prices, is not the reverse true? Are they not subject to decrease in periods of declining commodity prices? Many a widow whose husband left her, as a sound stock investment, common shares of American Sugar will so testify.

A good investment for a widow with two children and with the income from only $100,000 (and it is assumed she has no other family sources to fall back on) should contain another element which owing to its nature is not inherent in common stocks—namely, it should eliminate, so far as possible, sources of worry.

It is a rare widow who can have her funds invested in common shares and not be unduly worried in times of general panic. And worry leads to more troubles than does necessity for economy.

Investing in Revolving Maturities

There exists a method of obtaining entirely from bonds an income from which a return as nearly as possible commensurate with the cost of living may be provided. This method is based on an investment in revolving maturities. It contemplates initially investing 10% of the funds in bonds maturing each year for ten years and then proceeding each subsequent year to reinvest those maturing in bonds maturing ten years later. Thus the average return of each decade is obtained. Moreover, this method permits considerable elasticity, for larger income may be obtained at once if the cost of living should rise rapidly because 30% of the fund is in one to three-year bonds which are bound to be reasonably near par and can be sold and reinvested in bonds of longer maturity bearing higher interest rates in a time like 1920.

In the normal course of reinvesting the maturing funds it is preferable to purchase bonds selling at a discount that there may be an accumulation of profit by which the fund may be increased or which may be used in emergencies which usually arise.

In reinvesting it is advisable also to purchase the best-seasoned bond issues of businesses which are not meeting the popular fancy at the time, for obviously popularity increases the cost of a security in comparison with bonds of equal merit in unpopular fields.

To provide for the education of the children there should be put into co-operative banks monthly such sum as seems advisable and possible with the knowledge that each dollar per month so set aside becomes $200 in twelve years. Ten per cent of the income from the hundred thousand dollars so applied would provide $8000 at the time the children would probably be ready for college and thus go a long way toward putting them through.

Any good investment house can set up an original investment of this sort—the field of choice of bonds is a wide one and with careful consideration given to the specific selections can be of good quality and produce an income of $5000 per annum.

XVII

A CRITICISM

By THOMAS EDMUND HAMMOND

Picking the Best from the Prize Lists

THE three articles contributed on "How to Invest $100,000," being the entire fortune of a young widow with two children, are very praiseworthy, and I think *Barron's* is to be congratulated in inaugurating a contest of that description. Any criticism to be made in the three plans outlined must of necessity be constructive as they all agree in the importance of a safe investment with the greatest earning power.

Investing for a widow, it seems to me, presents a situation that calls for the highest type of business integrity. Women as a whole, but especially those who have given their whole time and attention to household duties and bringing up children, have not had the training and experience in matters of finance and business, and they do not acquire that knowledge unless the husband has been farsighted enough in giving her instructions along that line.

Mr. Brown in his article commences with a well known truism when he remarks "It is a well known fact that it is easier to make money than to keep it." We might go a step further and say that the making of money was brain power capitalized and therefore the investment as a whole should be preserved.

The difference in earning power between the three

plans presented is very slight, which indicates a very close study of market securities.

Mr. Van Riper in his article stresses the point that "We must avoid the common mistake of setting our minds on a desirable figure for income and selecting securities which will yield that result; rather we must accept the results which follow from investing in securities of the highest type, and our client must adjust her living expense inside the income which is thus obtained." We can proceed a step further and say that our client can save for further investment a part of the income thus obtained which will materially assist the children when they become older. A fortune of $100,000 presumably was not acquired without the sacrifice of systematic saving, why should it be abandoned after the wage earner had departed?

Favors Preferred Stocks

Mr. Brundage in his article does not think favorably of preferred stocks as investments. Exception is taken to this view and a well diversified and balanced list should show a proportion of well seasoned preferred stocks; preferred stocks that have earned and paid regular dividends through a ten-year period, or more, and which have earned that dividend two or three times over, are certainly entitled to recognition.

It seems to me in outlining a plan of investment of $100,000 for the widow, only securities of the leading rails, industrials or public utilities and foreign issues should be considered and they should be of the highest type.

The average woman has not the time or inclination to keep in touch with daily market conditions or

fluctuations and it is therefore important that only representative bonds and stocks should be held.

The investment in short-term bonds, and thereby keeping part of the fund liquid as advocated by Mr. Brundage, would be feasible to the woman who kept in touch with market conditions and could rely on her own judgment as to the safe re-investment of principal.

A feature that does not seem to have been suggested by either of the plans submitted is that of diversifying investments with regard to regular income periods.

Mr. Brown in his list includes some foreign issues, which is a good thing from the standpoint of diversification. When you consider the increasing financial strength of this country, isn't it reasonable to suppose that investments in foreign bonds are logical?

Choosing from each one of the lists and classifying under appropriate heads, we arrive at the following:

BONDS

Amount		*Cost*	*Interest date*	
	Rails			
$5,000	Rio Grande Western 1st 4s, 1949	$3,700.00	Jan.	July
5,000	Kan City, Ft. Scott & M 4s, 1936	4,250.00	Apr.	Oct.
5,000	Baltimore & Ohio 1st 4s, 1948	4,475.00	Apr.	Oct.
		$12,425.00		
	Industrials			
5,000	U. S. Steel 5s, 1963	$5,250.00	May	Nov.
5,000	Armour & Co. 5½s, 1939	4,450.00	June	Dec.
3,000	General Electric deb 3½s, 1942	2,531.25	Feb.	Aug.
		$12,231.25		
	Utilities			
5,000	Laclede Gas Lt. Co. ref. & ext. 5½s, 1934	$5,050.00	Apr.	Oct.
5,000	North American Edison 6s, 1952	5,075.00	Mar.	Sept.
2,000	Pacific Gas & Electric 6s, 1941	2,100.00	June	Dec.
		$12,225.00		

Amount		*Cost*	*Interest date*
	Foreign		
$5,000	City of Copenhagen 5½s, 1944	$4,900.00	Jan. July
5,000	Dutch East Indies 5½s, 1953.	4,975.00	May Nov.
		$9,875.00	
	Total bond invested capital.	$46,756.25	
	Total bond income.....	2,475.00	

STOCKS

PREFERRED

Shares			*Price*	*Cost*
	Industrials			
50	National Biscuit.....	@	118½	$5,925
50	U. S. Steel.....	@	123	6,150
				$12,075
	Utilities			
50	Consolidated Gas of N. Y....	@	58	2,900
50	Duquesne Light.....	@	110	5,500
				$8,400

COMMON

	Rails			
50	Atchison, Topeka & Sante Fe.	@	119	5,950
50	New York Central R. R.....	@	117	5,850
				$11,800
	Industrials			
50	Pullman Company.....	@	140½	7,025
	Utilities			
50	American Tel. & Tel. Co.....	@	149	7,450
50	Detroit Edison.....	@	123	6,150
				$13,600
	Total stock invested capital.		$52,900	
	Total stock income.....		3,150	

RECAPITULATION

Total bond invested capital.	$46,756.25	
Total stock invested capital.	52,900.00	
	$99,656.25	
Total bond income.....	2,475.00	
Total stock income.....	3,150.00	
	$5,625.00	

XVIII

A CRITICISM

By ELBRIDGE S. WARNER

Delay Stock Purchases—Select More High-Yield Inactive Bonds

ONE of the easier things done by man is the criticism of the work of others. It is not such an easy task, however, to give constructive criticism. Some of *Barron's* readers may not entirely agree with the suggestions submitted by Mr. Van Riper, Mr. Brundage and Mr. Brown for the investment of $100,000, the entire fortune of a young widow, but there are few who could improve upon the published articles and there are none who will not agree that the contest conducted by this leading financial weekly has aroused a nation-wide interest and resulted in a world of good to investors, bond men and all men and women interested in financial matters.

PROTECTION AGAINST CHANGING CONDITIONS

By dividing the fund among short-term and long-term investments and common stocks, the widow has been protected against rising or falling interest rates and against the rise or fall in the purchasing power of the dollar. Short-term bonds will enable the widow to make more advantageous investments if interest rates rise in the next few years; and the long-term

bonds will appreciate in value if interest rates over a period of years tend to decline. If the purchasing power of the dollar declines, the stocks as a whole will pay a larger return, as they will probably do anyway, since they represent equities in only the strongest companies which will grow and prosper with the growth and prosperity of the United States. If the purchasing power of the dollar rises, the fixed income of the bonds will be of more actual value as it will purchase more commodities. Thus all future contingencies are taken into consideration in so far as possible and the fund is so invested that advantage may be taken of future opportunities.

Criticism

A constructive criticism must then take the form of added suggestions that may be of benefit to the fund. These suggestions will deal with the actual list of investments as we have already agreed with the broad general principles as presented.

Suggestions for Purchase of Securities

Each of the three articles states or implies that interest rates are low and that as a result bonds are at or near their peak prices, while nothing is said of the comparatively high prices for stocks. Either assumption may be a thing for the future alone to answer, but so far as the bonds are concerned this question is settled by the purchase of both short and long-term bonds. It seems to this writer that stocks are high, but perhaps they are only high because we compare present prices with prices of the past. Regardless of our private opinions on this questionable matter,

it would be wise to protect the investor against having purchased all of her stocks at high prices during a bull market. The stocks should be purchased over a period of not less than two years. In order to buy at a fair average price, one-third of the number of shares of each stock selected should be purchased immediately, one-third at the end of one year, and the other third at the end of two years. Short-term bonds maturing in one and two years are available yielding from 4% to 5% or slightly better, and these can be purchased to produce income on the money which is ultimately to go into the stocks.

It might be said that this plan is uncertain and therefore undersirable as the prices of the stocks will change. That is just the element of possibility against which we are attempting to protect the investor, as has been done in the bond account. If the whole price level of stocks declines, the widow will benefit greatly by delaying part of her purchases; if the level remains about stationary, she will be no worse off; and if prices rise as a whole, she will probably have to purchase fewer shares. In any event, some of the stocks will be lower and some higher than at the present time and savings on one stock will have to be applied against the increased amount of money needed for another. It is obvious, however, that by this plan we arrive at a fair average, while we do not do so by purchasing all of the stocks immediately.

Increasing the Income

An opportunity has been overlooked in each of the three investment lists and that is in the bond account where higher yielding and less marketable bonds

could be used. Up to 50% of the money available for bonds should be placed in this type of security. In every financial center there are numerous local bond issues of unquestioned security that yield from 5½% to 6%. These issues are usually spoken of as being unmarketable because they are unlisted, but as a matter of fact they command an excellent market where they are known. Bonds of this character usually carry 6% coupons and seldom sell much above or below par. In fact, high-grade local bonds are often in demand at par when more active bonds are selling off in a tight money market. In every financial center there is a steady demand for the best of the local bonds regardless of general market conditions. As ready marketability is not needed for the whole bond account, it is an unnecessary sacrifice of income to pay the higher price for an element which is of no value in this particular case. Tax-exempt bonds are left entirely out of the lists because tax exemption is not a requirement of the fund and, likewise, a high degree of marketability in all of the bonds is not necessary and should be avoided.

Real Estate Mortgage Bonds

In this same group we could probably place good real estate mortgage bonds which certainly should be put in the bond account because of their excellent security and high yield. There is no safer form of investment than first mortgage bonds on down-town real estate where values are stable and the mortgage small in relation to the value of the property, where the earnings are adequate and the character and

responsibility of the borrower are unquestioned. The first mortgage leasehold 6s secured by the May Department Stores Building in Cleveland, the first mortgage fee 6s secured by the London Guarantee and Accident Building in Chicago, or the first fee 6s secured by the Park Avenue Building in New York are examples of high-grade real estate issues which should have a place in this fund.

A criticism this writer has with Mr. Brown's stock list is that it is divided among only six stocks. This is not wide enough diversity for $33,000 of $100,000 total investments. The other two lists carry as many as eighteen items in the stock account, which is better diversity.

Holding-Company Bonds

Each author agrees that the bonds should be of unquestioned security, but in two of the lists there are bonds of holding companies. These companies may be rich in assets and earning power, but their source of income is the common stocks of other corporations. Thus the bond security is the equities owned by the holding company. Since 30% or 40% of the widow's money is in equities in the form of common stocks, we should avoid bonds or debentures which have common stocks for their security. If an investor's security is no better than common stock, he may as well buy the common stock itself and share in the profits if there is prosperity. He will probably lose anyway with the bond as well as with the stock if the stock suffers from loss.

Larger Income in Future

Each of the articles not only attempts to maintain the purchasing power of the fund but also suggests that it should increase to take care of higher standard of living. As is suggested in the articles, this investor must keep her expenses within the income and not attempt to make the income to suit the expenses. Likewise, if she hopes to raise her standard of living, she must save some of her income for investment rather than look forward to larger income on the original $100,000. This is a matter that is up to the widow as it is up to each and every individual who looks forward to having more in the future than he has at the present time. Unless we save something of what we have today we cannot have more at some future date.

General Comment

In conclusion, we must congratulate *Barron's* for having conducted this contest and commend Mr. Van Riper, Mr. Brundage and Mr. Brown upon the manner in which they have presented the general principles of investment as applied to a fund of this kind.

With the three winning articles in hand it might be possible by elimination and combination to work out a better list of suggestions than any of the three published, but that is not the purpose of this article. The writer has simply attempted in a general way to give constructive criticism and review the problem as he sees it.

XIX

AMERICA'S FAVORITE INVESTMENTS

For the purpose of obtaining a symposium of investment opinion, the investment lists contained in the articles submitted in *Barron's* "Investing for a Widow" contest were assembled and compiled.

1485 Entered Contest

A total of 1485 people from all walks of life and all parts of the country submitted answers. Of this number 375 contributions were eliminated because they did not comply with the conditions of the contest or were trivial or vague. The suggestions contained in the remaining 1110 articles were tabulated.

Every conceivable type of investment was mentioned. Bonds and stocks naturally predominated, over 3500 separate issues being suggested. Many lists included real estate, real estate mortgages, ground rents, deposits in savings banks, commercial banks and building and loan associations. The articles of others rated as suitable investments automobiles, pedigreed live-stock, farm implements, and even plush furniture!

Telephone More Popular than Libertys

Securities of the American Telephone & Telegraph Co. appeared on more lists than those of any other company, on more lists even than United States Government bonds. Telephone issues appeared 668

times on the investment schedules of the contestants; that is to say, on over 60% of the lists, 387 selecting the common stock, 121 the debenture 5s of 1960, and 160 the other bond issues.

The various issues of United States Government bonds appeared 556 times, or on just over one-half the lists, the different issues of Liberty bonds being specified on 337, and Treasury certificates and notes on 219. There were six lists that recommended United States Government bonds exclusively.

U. S. Steel Picked by 521

The securities of the United States Steel Corp. were a close third, being mentioned 521 times, or on almost half the lists. In 247 cases the common stock was specified, a striking commentary on its evolution in twenty-odd years from a speculative football, generally cited as the most conspicuous example of "watered" stock, to a high investment position.

The Popular Companies

Of the next eleven companies in order of popularity as measured by the number of lists in which their security issues were mentioned (bonds and stocks combined) seven were leading railroads, two prominent public utilities (with Telephone making a total of three of the first fourteen) and two well known industrials (with Steel making a total of three of the first fourteen). The ranking of the fourteen favorite companies (including United States Governments as one) as measured by the number of lists on which their securities appeared (bonds and stocks combined) was as follows:

Company	Number of lists on which securities appeared
1. American Telephone	668
2. U. S. Gov't. bonds (all issues)	556
3. United States Steel	521
4. Atchison, Top. & S. F. R.R.	416
5. New York Central R.R.	368
6. Baltimore & Ohio R.R.	312
7. Pennsylvania R.R.	298
8. Union Pacific R.R.	290
9. Pacific Gas & Electric	265
10. Westinghouse El. & Mfg	232
11. Consolidated Gas of N. Y.	220
12. Illinois Central R.R.	213
13. Southern Pacific R.R.	208
14. American Smelting & Refining	199

The Favorite Bonds

When it came to compiling the specific bond issues, it was not practicable to list separately the various United States Government issues as so many contestants who included them did not think it important to specify an individual issue. As has already been noted, United States Government bonds appeared on 556 lists, divided into Libertys 337 and Treasurys 219.

For similar reasons, the different federal land bank and joint stock land bank bonds were grouped together, these bonds appearing on 90 lists. Investment lists to the number of 226 specified various issues of domestic municipal bonds, the different New York City issues leading with a count of 42. Eighty-one lists specified bonds of various states, and ten various county bonds. A total of 101 included foreign municipal bond issues.

Also it was not practicable to separate the various issues of real estate mortgage bonds, partly because of the multiplicity of individual small issues mentioned,

and partly because many lists mentioned a definite sum to be invested in simply a type of bond—the "Straus Type," for example, being frequently specified. Real estate mortgage bond issues were mentioned on 286 lists, including all of the various kinds of such bonds, the modern serial bonds sponsored by an issuing house as well as the older guaranteed mortgages carrying the guaranty of a mortgage company, together with the straight "split" real estate mortgage bond.

Turning to specific bond issues, it will perhaps be a surprise to find a bond hardly of the highest grade in the premier position; Anaconda 6s of 1953 nosing out for the honor that sterling security Atchison general 4s of 1995—perhaps the soundest long-term corporation bond that is generally available. United States Steel 5s of 1963 and American Telephone 5s of 1960 were a close third and fourth.

Of the twenty-seven leading bond issues, nine were those of utilities, seven industrials, six railroads, and five foreign governments (Argentine, Norway, Australia, Japan and Denmark). The order in which they stood was as follows:

Name of bond	*Number of lists mentioning bond*
1. Anaconda 6s, 1953	126
2. Atchison 4s, 1995	124
3. American Telephone 5s, 1960	121
4. U. S. Steel 5s, 1963	120
5. U. S. Rubber 5s, 1947	116
6. Pacific Gas & El. 5s, 1942	110
7. Great Northern 7s, 1936	103
8. Am. Smelting & Rfg. 5s, 1947	102
9. Argentine 6s, 1957	95
10. Norway 6s, 1944	84
11. American Telephone 5½s, 1943	81
12. New York Central 5s, 2013	80
13. Armour 4½s, 1939	75
14. Pennsylvania R.R. 5s, 1968	72

Name of bond	*Number of lists mentioning bond*
15. Western Union 6½s, 1936	71
16. Australian 5s, 1955	69
17. Brooklyn Edison 5s, 1949	68
18. Montana Power 5s, 1943	68
19. Commonwealth Edison 5s, 1943	65
20. Western Electric 5s, 1944	65
21. Japan 6½s, 1954	63
22. Laclede Gas Light 5½s, 1953	61
23. Tennessee El. Power 6s, 1947	59
24. Union Pacific 4s, 1947	57
25. Virginia Ry. 5s, 1962	57
26. Westinghouse El. & Mfg. 7s, 1931	57
27. Denmark 6s, 1942	56

The Ranking of Stocks

The current trend of investment opinion is illustrated by the fact that the vast majority of the lists submitted included common stocks. They appeared in all but seventy-four of the lists, and twelve of these specified that a portion (in three cases all) of the funds should be temporarily invested in short-term bonds or notes, to be later reinvested in stocks after the market declines from its present high level. There were also many other lists which made a present commitment in stock, but provided as well for a liquid fund to be later similarly reinvested. There were, moreover, twenty-seven lists made up entirely of common stocks.

There can be no doubt that Van Strum's "Investing in Purchasing Power," first published serially in *Barron's* a year ago, has had an important part in modifying the traditional views about common stocks, together with Smith's "Common Stocks as Long-Term Investments," as well as the earlier writings of leading economists of whom Prof. Irving Fisher has

been perhaps the most conspicuous. It is fair to say, however, that the majority of the contestants had not been regular readers of *Barron's* prior to entering the contest.

Of the specific stocks recommended, as has already been indicated, American Telephone was the favorite by a wide margin, with United States Steel common second, and Atchison common and New York Central a reasonably close third and fourth.

Of the thirty-two favorite stocks, twenty-six were common and six were preferred. The highest ranking preferred stock was United States Steel preferred which stood seventh on the list. These thirty-two include thirteen industrials (eleven common and two preferred); nine rails (seven common and two preferred); six utilities (five common and one preferred, that of the premier utility holding company North American); three oils (two common and one preferred), and one mining stock, Kennecott Copper.

It should be noted that these lists were prepared between June 1 and Aug. 15, 1925, since when many of the stocks have advanced considerably in price, some of them, notably General Motors common and Du Pont, quite sensationally. The rank of the thirty-two favored stocks was as follows:

Name of stock	*Number of lists mentioning stock*
1. American Telephone	367
2. U. S. Steel com	247
3. Atchison com	218
4. N. Y. Central	192
5. Westinghouse El. & Mfg. com	161
6. Union Pacific com	138
7. U. S. Steel pfd	131
8. Southern Pacific com	112
9. Illinois Central com	112
10. Pennsylvania R.R.	94

Name of stock	*Number of lists mentioning stock*
11. Consolidated Gas of N. Y. com	91
12. General Electric com	90
13. American Tobacco B	88
14. General Motors com	88
15. General Motors 7% pfd	83
16. North American pfd	80
17. American Car & Foundry	71
18. United Fruit	70
19. Pullman	69
20. Eastern Kodak com	66
21. Du Pont com	65
22. Standard Oil of N. J. pfd	64
23. Texas Co	64
24. Standard Oil of N. J. com	62
25. Western Union com	62
26. Brooklyn Edison com	62
27. Pacific Gas & Elec. com	59
28. Allied Chemical com	58
29. Kennecott	57
30. N. Y., Chicago & St. L. pfd	56
31. Southern R'y. com	56
32. Atchison pfd	54

Other Investments

It is significant that all of the thirty-two favored stocks are listed on the New York Stock Exchange. Two types of unlisted stocks met with much favor, those of banks and insurance companies. Investment lists totaling 219 contained some bank stocks, the majority specifying some local bank with whose affairs the writer was more or less familiar. The bank stocks that appeared most often were Bankers Trust Co. of New York, twenty-four times, and National City Bank of New York with twenty-one listings. Eighty-seven favored insurance stocks, the selections being widely distributed, no one company being mentioned as many as ten times.

Real estate as an investment was recommended on

271 lists. A total of 191 thought that the widow should buy a home, the prevailing view being that $10,000 should be used for that purpose. Most of the articles gave as a reason the social advantages or the freedom from worry and very few of those recommending the purchase of a home made any attempt to offer an investment reason for so disposing of a portion of the fund. Eighty other lists advised the purchase of other forms of real estate, the most popular suggestion being apartment houses, though farms, acreage in the suburbs of growing cities and Florida real estate had their supporters.

A deposit in a savings bank or similar institution was recommended on 231 lists, thirty-six suggesting more than $10,000, and six recommending that the whole $100,000 be deposited in banks.

Undoubtedly there are many bonds and stocks of equal or greater merit that do not appear on the favored lists, but it is clear that no investment fund which is reasonably well diversified among the bonds and stocks mentioned will go very far wrong.

BRENTANO'S
Booksellers & Stationers

S0-EVA-433